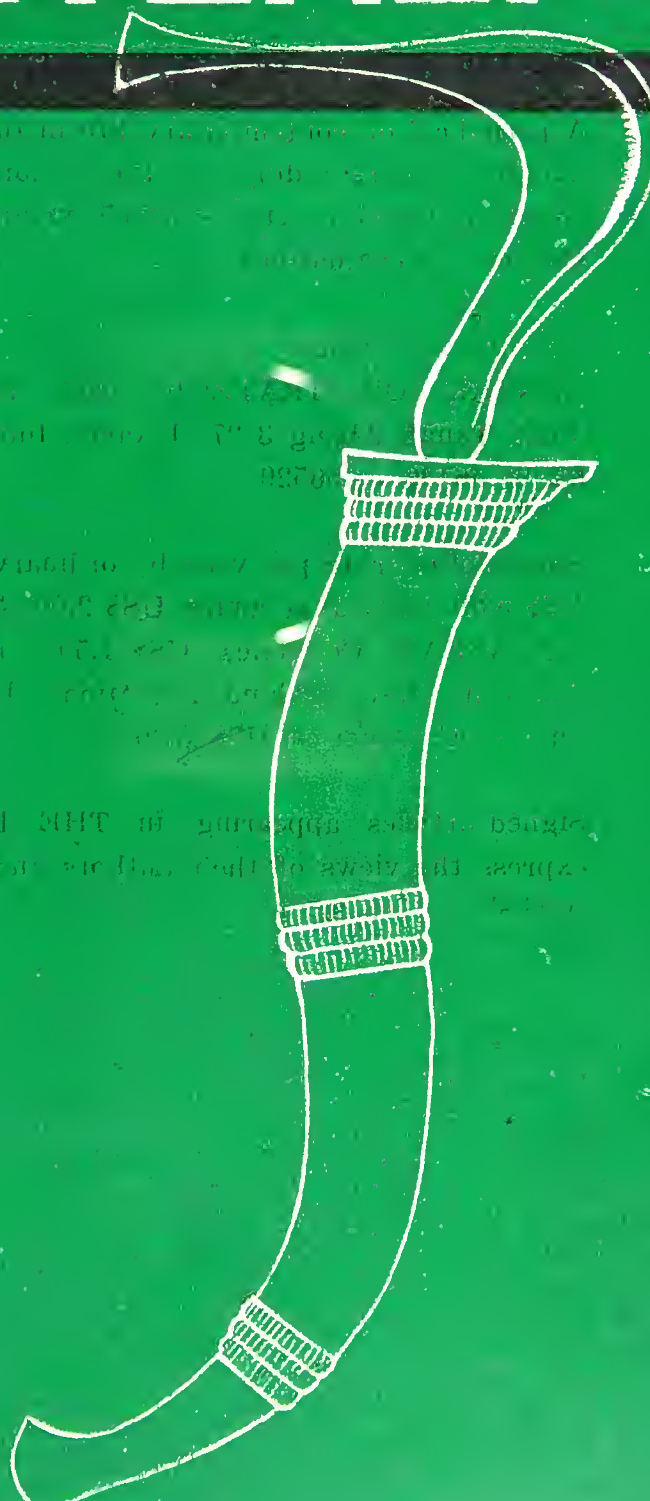
THE INDONESIAN QUARTERLY



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FROM THE EDITOR

The present number of THE INDONESIAN QUARTERLY contains articles that deal mostly with economic problems, national as well as international. Thus Mr. Hadi Soesastro writes an interesting article on the question of a well-balanced economic growth coupled with justice, which is indeed to the aim of the national development plan now being implemented in Indonesia. Now that the country's five-year development plan is nearing its completion, to be followed by the second five-year plan beginning in April of this year, the article discusses something of undoubtedly great relevance to a problem that has been in the minds of many in the country who are concerned with the problem of national development, particularly with respect to the direction it should take.

In the meantime, however, economic growth cannot be attained, and indeed the overall national development cannot be properly carried out without the help of correct data collected from all parts of the country. The article written by Mr. Nugroho of the Central Bureau of Statistics will shed light on the problem of data flow and statistical organization in Indonesia.

In recent months foreign capital investment has been under severe criticism in Indonesia and elsewhere in Southeast Asia. This is due mainly to the way foreign investment has developed which is harmful to the national interests of the country. In his article Dr. Thee Kian-wie deals precisely with this question of foreign capital investment and labour-intensive industries and in so doing he shows us which option to be taken in the best interest of the national economy.

If today the richness of the country in raw materials has attracted the flow of foreign capital, in the past the abundance of spices induced the arrival of Western powers to the Indonesian archipelago. Among them were the Portuguese, who first discovered the source of spices. Miss Paramita Abdurachman's essay deals with Portuguese settlements on the Indonesian shores in search of spices.

The advancement of technology has brought about fundamental changes in the economic patterns of the world. It has changed the concept of international trade and economic cooperation. But many have not realised this. Dr. Daoed Joesoef's article on Knowledge Economy and World Economy introduces a stimulating discussion on this aspect.

Since the end of World War II, aspirations towards regional cooperation in the military, political, economic, and cultural fields have developed among nations. It would be fair to say, however, that so far regional economic cooperation has been concentrated on the littoral states of the Atlantic Ocean. Undoubtedly, the European Economic Community is at the moment the most successful economic grouping among the non-Communist countries in Western Europe. Still, the littoral states of the Pacific Ocean is certainly of no less importance than the member nations of the European Economic Community. In his article, Prof. Sumitro Djojohadikusumo discusses the possibility of a future regional economic cooperation in the Pacific Basin.

The promotion of sound business administration would require tho right man in the right place. But to produce the right man requires proper training. Here Prof. Panglaykim writes an article discussing the curricular implications of business administration.

While education in Indonesia since independence has been rapidly growing, many educationalists in the country are still unhappy about the present educational policy of the government. In his article, Mr. Pranarka makes a critical analysis of educational reform in Indonesia.

Finally, mention is to be made of the first Japanese - Indonesian Conference sponsored by the Centre for Strategic and International Studies in Jakarta, which was held both in Jakarta and in Sanur, Bali, from 6 to 10 December last year. Tho article written by Major General Soedjono Hoemardani on Japanese-Indonesian relations in the future would constitute a proper introduction to the very theme of the conference. And Prof. Sadli writes on his impressions of that conference.

INDONESIA - JAPAN RELATIONS IN THE FUTURE — A STRATEGIC REVIEW

Soedjono HOEMARDANI

Since leadership of the Japanese Government was assumed by Prime Minister Tanaka, Japan has been seeking to establish and has established good political relations with all countries in the world. As in the past, these political relations are used mainly to serve Japan's national economic interests. Japan requires big amounts of raw materials for its industries but has to import almost all its needs. On the other hand, Japan also needs markets for its industrial products and has to find these markets abroad.

In getting raw materials and markets, Japan refuses to be dependent on one or two countries.

Neither does it wish to assume a passive attitude to be certain of the raw material supplies it needs. It vigorously makes investments in many countries to join in acquiring the raw materials. In this way Japan wishes to be assured of the raw material amounts it needs and when to ship these materials to guarantee the uninterrupted operation of its industries.

For example, iron ore is brought in from Australia (30%), India, Peru and Chile. Copper is obtained from the Philippines, Canada and Zambia and manganese from India, South Africa and Australia.

The spur to large-scale investments abroad is provided by the constantly positive development of Japan's balance of payments. Japan's exports have so expanded that the national economy steadily grows positively. In less than 20 years, Japan's exports have gone up from 5% to 20% of the U.S. GNP. The surplus in the balance of payments must be channelled abroad via both foreign aid and

capital investments. For when they are accumulated, the surpluses will invite pressures from other countries that Japan liberalize its import policy.

There are other factors which encourage Japanese investments. Among other things, it is increasingly difficult to maintain labor intensive industries because of the constantly rising labor costs. It is increasingly difficult to get land for industrial sites and the Japanese people are increasingly sensitive to the pollution of the environment by industries. Also there are fewer opportunities to employ skills and capital. Another very important factor is the pressure of protectionism in the advanced countries which provide markets for Japan's industrial products.

Influence on other countries

Diversification of raw material purchases by Japan has caused many countries to depend on the Japanese market for their raw materials. If it is not the one and only market, it is the major market. This is felt not just by the developing countries but also by advanced countries like Australia. Japan imports 50% of its demand for bauxite from Australia, but this is 80% of Australia's total bauxite exports.

Asia depends for its trade on Japan. In 1955, Japan's share of Asian trade was only 8%, but it grew to 24% in 1969 and will increase to 49% in 1980. This means that Asian exports depend increasingly on Japanese markets.

On the other hand, the dependence of Japan's imports and exports on Asia has been diminishing, which is proof of the success of Japan's diversification policy. Japan's exports to Asia decreased from 35% in 1955 to 26% in 1969 while imports from Asia (excluding the Middle East, the Near East and the Communist countries) decreased from 26% in 1955 to 15% in 1969.

The development is the same with regard to Indonesia. Indonesia's imports from Japan in 1967 amounted to 28%, but in 1971 they rose to 35% and may have increased to 40% in 1972. Indonesia's exports to Japan showed an even greater increase. In 1971 Indonesia's exports to Japan amounted to 29%, rose to 42.5% in 1971 and regarding some export commodities Indonesia depends almost 100%

on the Japanese market. Ninety percent of Indonesian nickel, 100% of iron dust, 85% of timber, and 87 to 90% of oil go to Japan. Japan's oil imports from Indonesia, it should be noted, amount to only five to 10% of its total oil imports.

It is clear that Japan's political relations with other countries are the result not just of Japan's desire and efforts but also of the desire and efforts of other countries. Japan's economic strength and advance attract other countries to derive profit from them. Australia, for example, approaches Japan because Japan offers a good market for Australian wheat, meat and other agricultural products. Australia has in fact managed to profit from the Japanese people's savings after having got a permit to sell Australian government bonds in Japan. Another advantage is that Australia has obtained Japan's support to join the Group of Ten. Japan has been the one and only member country from Asia/Pacific region in the Group of Ten since it was formed. Australia - Japan relations have so expanded since 1972 that a system of consultations on the ministerial level has been adopted.

Racing to Japan

It may be said that currently the countries in the world are racing to establish good relations with and derive profit from Japan's economic strength. Large-scale Japanese investments abroad have created Japanese industries outside Japan which since the 1960s have joined in producing the so-called "Asian dollars", namely capital which has an increasing share in the development of the countries of Southeast Asia.

Of Japan's total assets abroad which in 1970 were worth US$ 3.5 billion, US$ 2.5 billion was found in Asia. With an annual profit of 2%, this capital produces a profit of US$ 50 million per year. This profit, according to experts, will continue to increase in the years ahead. All these are the result of both direct and indirect Japanese investments abroad.

In the past, the biggest source of Asian dollar was China's investments and industries abroad. Only China, outside the U.S., emerged out of the second world war with the smallest debt.

After the second world war, Asian dollars continued to flow into the Chinese mainland via financial institutions in Hong Kong. In 1954 it was estimated that 40% of the funds originated from Indonesia. Since China split into the People's Republic of China and Taiwan, the flow of funds has been divided and a large amount has been frozen by their owners in financial institutions in Hong Kong, Macao and Singapore, because the overseas Chinese were reluctant to invest their money because of the narrowminded and discriminative political attitudes in the countries of Southeast Asia, including Indonesia.

Singapore PM Lee Kuan Yew started preparing his country to be the center of Asian dollars in 1960. Now his efforts are evidently successful. Singapore is no longer a transit port and trading country but has emerged as "Southeast Asia's financial center", thanks to the vision of its leaders. Indonesia, on the other hand, has lost a good opportunity because of the short-sightedness and emotional attitude of its leaders, whereas the source of the Asian dollars is largely Indonesia, and Indonesia's financial institutions at that time operated quite efficiently.

New Opportunities and Challenges

After having lost the chance to obtain funds from the Chinese industries outside China, Indonesia is now faced with a new opportunity to take advantage from the Asian dollars produced by Japanese industries outside Japan. Will Indonesia use this opportunity or will it let it pass again ?

Thus far, the important, if not principal, financing source for our development is the aid of the creditor countries associated in the IGGI. But there are already indications that the aid will decrease. The reason is that the aid depends very much on the political structure and developments in each of the creditor countries. Moreover, there are signs that the younger generation in the advanced countries do not feel at all that they have any "moral debt" to assist the poor countries which were colonized by their ancestors.

Developments in the creditor countries oblige us to give thought to other alternatives and one of the alternatives is the use of funds produced by Japanese industries outside Japan. This is a good chance

but also a serious challenge. Capital from these huge funds can spur national economic growth without national participation, or growth without development. If this happens there will certainly be social tensions which not just brake but nullify the growth itself. This is what we are concerned about and this is what we do not want.

In economic relations with Japan, one factor which must be taken into account is the role of institutions which direct Japan's foreign aid. According to Mitsui, the total volume of Japan's imports and exports in 1972 amounted to US$ 55,349 million. Of this amount, US$ 33,336 million was produced by the "big ten", like Mitsubishi, Mitsui, Marubeni, C. Itoh and others. This means that the big ten handle 60.3% Japan's trade.

This also means that exports from many countries and the income of millions of people in the countries which produce raw materials are also determined by the big ten. As a matter of course, Japan's foreign policy is greatly influenced by the managers of the giant companies, because Japan's foreign relations are almost wholly colored by economic and trade considerations.

Is Revival of Japanese Militarism Possible ?

If foreign relations are dedicated to economic and trade interests, is it possible that Japan will build up and use military power to protect the economic and trade interests? The whole world and Japan itself are worried by this question.

After the end of World War II the world realized that if Japan was allowed to build up its military strength, the security of the world and the Asia-Pacific region in particular would not be guaranteed. So America promptly pressured Japan and managed to reach an agreement. Japan may build only defensive weapons and not offensive weapons. In compensation, America will protect Japan against both conventional and nuclear attacks. The essence of this agreement is contained in Japan's constitution.

Thanks to the American nuclear umbrella, Japan has been able to give all attention to the development of its national economy. The result is that within a short time Japan has emerged as a world economic power which even shakes America's economy. With the economic strength, Japan-America relations have developed into

mutual economic and military relations. Every move by Japan which disturbs the American economy will have effects on Japan's defense. and every move by America which disturbs the stability of Japan's defense will spur Japan to increase its military strength.

In this process, America cannot use the nuclear umbrella as a bargaining tool in solving economic-monetary problems between America and Japan, because that will prompt Japan to make nuclear weapons within a short time. This places America in a great dilemma, because its own economic interests force it to confront Japan.

The recent shifts caused Japan to question the viability of the American nuclear umbrella. Japan feels that America will not risk a nuclear war only to protect Japan. And then what road will Japan take ? This is Japan's serious dilemma at this time.

America wants Japan to be prepared to effect a more balanced cooperation and to join in shouldering international security burdens. But this involves various political, psychological, economic and technical aspects which must be settled beforehand. Meanwhile, Japan's reservations about the American nuclear umbrella are growing. Japan has begun to feel that it is left alone and has to seek a new formula for its economic, political and military strategy.

Some Alternatives and Possibilities

Confronted with a serious dilemma in its relations with America, Japan has some options. First, rearmament with the certainty that sooner or later Japan will be a nuclear power. Domestically public opinion is strongly against rearmament. There is a very militant leftist-Communist group which vehemently opposes Japan's rearmament. On the other hand, a section of the community does not consider military strength taboo when necessary. Though banned by the constitution, the formulation is open to extreme interpretations and the constitution itself will not be a major obstacle in the end.

Second, to seek a new alliance with equal parties, namely the Soviet Union. China or Australia. It is not possible to have an alliance with both the Soviet Union and China because these two communist countries are still hostile to each other. It is neither possible with the Soviet Union alone because the Japanese do not like this country.

Its only attraction is Siberia's natural wealth. It is possible to be allied with Australia but this alliance will not change Japan's position. If extreme choices have to be made, an alliance with China offers the greatest possibility. Though the Japanese people fear China, they admire China's culture.

Third, to seek a new political formula to be friendly with all countries. PM Tanaka is making every effort to apply the principle of "security through diplomacy". This strategy is "safest" for Japan and offers the least danger for the world. Theoretically it is possible, but in practice there are many obstacles so long as there are no radical changes on the part of Japan itself. In the end this strategy will stumble against the special relations between Japan and America, particularly in Japan's efforts to approach the Soviet Union or China. Though militarily the Japan-America security agreement is greatly reduced in significance, politically it is still meaningful because in the event of any trouble or threat from the outside Japan can still rely on it.

PM Tanaka has begun to play a role in the international world by being friendly to all countries. This is a very difficult role. To other countries, including Indonesia, the best way is to be patient and give time to Japan to discover its foreign policy while seeking via diplomacy to help Japan fill that policy. The two extreme alternatives, namely an alliance with China or development of military power, are very dangerous. But once Japan makes a choice, world public opinion can do nothing about it.

How to deal with Japan

When dealing with Japan, we are faced not just with the government but also with the managers of the giant corporations who are very dominant in the formulation of every foreign policy move. They are financially stronger than the Japanese government itself. So they are able to pressure the government to make policy decisions which are favorable to them.

Here we are again faced with challenges and opportunities created by Japanese industries outside Japan, as referred to earlier. They are directly involved with their "parents" in Japan in the formulation of Japan's foreign policy. Compared with Chinese

industries outside China, the Japanese industries outside Japan are more dangerous. Japan is a homogeneous country. The Japanese industries outside Japan will gradually control Japan's foreign policy decisions and these decisions will be based purely on economic considerations while involving the Japanese government in providing political security. It is seen here how difficult it is to solve problems arising between Japan and other countries, including Indonesia, if we confine ourselves to diplomatical moves between one country and another. We and the Japanese government, too, will face difficulties.

It is obvious that conventional diplomacy will not be able to respond to the challenges arising in the relations between Japan and Indonesia. Indonesia will directly feel the effects of Japan's developments and conduct even though it is not involved in them. The only way out is a diplomacy which is more comprehensive in substance and channels because we deal not just with the Japanese government but also with the Japanese industries outside Japan. So our diplomacy must involve business sectors and research institutions because in today's diplomacy the participation of certain research institutions is no longer a new thing. To be able to involve the business sectors in the diplomacy, we must prepare institutions which can engage in dialogues with Japanese industries.

On the regional level, Indonesia and the other ASEAN members need to adopt a common attitude on diplomacy facing Japan. This attitude involves the formula how Japan can join creatively in shouldering responsibility for the security of the Asia-Pacific region and Southeast Asia in particular. Japan's creative role is in aiding the development of the Southeast Asian countries. Jointly we can convince Japan that even though the formula is also demanded by other developing countries in Latin America, Africa and elsewhere, Southeast Asia and the Asia-Pacific region are more important because Japan is located in Asia and Japan's relations with Asia naturally have a specific character.

With a common stand, ASEAN can embark on an offensive diplomacy toward Japan, but this must be attended by the readiness of ASEAN and the Southeast Asian countries in general to accommodate and divert Japan's aggressiveness.

Our own preparations

It has been said that the Japanese industries outside Japan are producing Asian dollars from which we can benefit. But these industries are very dangerous if we do not know how to counter-balance them. The funds can undermine our economic growth and without national participation the funds can result in growth without development, which doubtlessly will create social tensions which paralyze or frustrate our development.

How then should we prepare ourselves? It is clear from the foregoing that there must be institutional facilities and readiness in both the economic and social sectors so that we have a counter-vailing power against Japan. In that way we can derive profit from the relations with Japan and use that profit for development with wide national participation.

We must realize that the Japanese investment funds can in practice be limited if the absorptive capacity of our businessmen and industrialists as well as national institutions has been promoted.

The business structure in our country today is still atomistic, meaning that there are thousands of small and medium businesses which are not well organized while the relations among them are personal rather than businesslike.

It is true, the small and medium businesses have a positive role in the growth of the national economy, but it must be admitted that they cannot be made the countervailing force against the big Japanese companies.

So national participation to derive the greatest possible benefit from the growing Japanese investments must be effected via "national integrated units" in industry, trade and finance, as Singa-pore has done. The national integrated units can be the countervailing force against all big foreign corporations and are also needed to help our own medium and small businesses.

The national integrated units will not fare well without adequate financing facilities. One, two or three development banks will not be able to serve their need. Even to fulfill the relatively modest demand thus far the few banks are hard pressed.

In this context, a national financial consortium must be created. It should be private in character, or a cooperation between

Government and private banks with the active participation of private foreign exchange banks, involving at the same time international financial consortiums in order to derive funds from the international money and capital market. Further it must be prevented that the financial consortiums located in Singapore which are ready to operate in the ASEAN countries channel their funds directly here without passing through the national consortium or merchant banks in Indonesia.

Without national financing facilities, there is a danger that the national integrated units would largely be financed by the giant Japanese corporations. If this happens, the national economy will not be strengthened. In this way the national partners of Japan's businesses will purely be "middlemen" as in the colonial days.

Social sector

We can derive profit from Japanese investments abroad not just in the economic field. We must seek to benefit also in the social sector. We can form an Educational Foundation to disseminate elementary technical skills to earn a living for high school dropouts, for example.

The Educational Foundation need not handle the program directly; it can execute it via training centers and government and private institutions which have been operating in this field but have not made progress through lack of funds, facilities and teaching personnel. The Foundation can also give scholarships to bright but poor students, give grants for the translation of textbooks, and so on.

For the above-mentioned purpose, the Foundation must have funds and it can seek to get these funds from the Japanese companies operating in Indonesia. The Foundation should seek to get the funds regularly. If necessary the funds can be exempted from company taxes. What should be avoided is that the funds are given once for all.

With initiatives like this, the presence of Japanese business in our country can produce spreading effects, enjoyed not just by the Japanese themselves or the Indonesians who are employed within the Japanese business environment but by the public at large.

The presence of Japanese business in our country has both positive and negative effects. The Japanese companies can hurt small and medium national businesses and can provoke irritation

on the part of the people, resulting in the end in political upheavals. But if we allow ourselves to be gripped by fear and do nothing, other countries will have opportunities to profit.

The future is the fabric of the evolution of events and human desires. The evolution which is the result of the whole process of physical and intellectual acts shows that in the future Japan will establish more industries and business enterprises abroad. This process can be stemmed, accelerated and diverted through events that are created consciously.

When the national integrated units in business, the financial consortium and the Educational Foundation are instituted, we must give thought to creating an "Indonesian Corporation" or the close cooperation among the government, business, the bureaucrats and technocrats.

Such a mechanism is necessary to close the gap between the macro and micro sectors as exists today because planning often views things only from the macro aspect and pays little attention to the mechanism which can get the micro sector to attain the set targets or proceed in the set course.

All these demand diplomatic skills for their realization and to get Japanese investments here. In this diplomacy we will be competing with other countries and what we will face is not just the "Japanese government" but quite probably the strategy of the Japanese industries outside Japan pursued via the Japanese government. So we must counterbalance by expanding the unofficial channels of diplomacy such as business institutions, research centers, academic seminars, meetings of intellectuals, and so on.

IMPRESSIONS ON THE FIRST JAPANESE - INDONESIAN CONFERENCE*

Mohammad SADLI

Images and Realities; Internal and External views

Images and views may be more important than realities and truths because the latter catagories are harder to ascertain and people cannot wait to make up their mind or governments to make decisions. However, through effective communication and frank interchanges the discrepancy between the two could be narrowed.

In this first organized exchange, which was very frank indeed, at least from the Indonesian side, the range of perceptions of Indonesians with respect to Japan was revealed. At one extreme there was the strong belief that Japan has not changed and will not change from what she was before last world war: a predatory animal out for conquest, hegemony and exploitation. On the other hand, there was the view that the opportunity created by the fast growth of the Japanese markets is a godsend enabling the Southeast Asian countries to propell their engine of development. The inherent risks of unequal economic power should be seen as problems of bargaining positions and strategies, in which various things can be done, nationally and internationally, to strengthen the hand of the developing countries vis-à-vis the much stronger Japan, or for that matter other industrialized countries. Although it may represent an oversimplification, one could distinguish between a pessimistic and an optimistic view; between a defensive and a more outgoing view; a threat oriented view and an opportunity oriented

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* Organized by the Centre for Strategic and International Studies, Jakarta, on December 6 — 10, 1973.

one. Possibly, even those holding the more threat oriented view will not suggest an isolationist stand vis-à-vis Japan because such is not good development strategy for Indonesia. However, what these protagonists may want to stress is the mental stand and bargaining attitude which we must adopt when facing the Japanese. What should be in the back of your mind is important, not whether or not you should deal with the Japanese.

On the other hand, there were also Indonesian views (and important ones because they originated from "establishment" members) that stressed the importance of an underlying spirit of co-operation based on mutual respect, give-and-take and burden sharing as exists between good neighbours in a community.

The Japanese participants in attempting to explain their own position stated that due to the current absence of any definite policy on Southeast Asia Japan at this time is more reacting than following a positive line and therefore the future pattern of relationships between these two areas will depend largely upon the stand, wishes and policies adopted by the Southeast Asian nations.

Southeast Asia and Indonesia in particular they believe is of great importance to Japan because of both its geo-political and geo-economic position (the area controls vital life lines to Japan and is a source of commodities essential to her economy) and this point coupled with factors such as internal and external limitations on policy alternatives, her need for stable contacts to cover her own vulnerability and the challenges of integrating domestic sociological and cultural changes were all forwarded in an attempt to dispel the myth of the "Japan Incorporated" or "Japan Grand Design".

The Indonesian self-image is expressed as being a product of the social revolution and national liberation from foreign rule and hence a new mode of dominance by foreigners, in economic terms, is anathema to these convictions. Indonesia realizes that for its economic development it still requires a lot of assistance from outside but this should not lead to loss of control over its own destiny. The fruits of development should be shared by the masses of the people and not by a minority of foreigners and aliens alone.

Interactions and Relationships

Between Japan and Indonesia the economic relationships are the most pronounced involving trade, aid and investments. Apart from the political aspects of aid relationships, there have been few developments in the political sphere possibly due to the fact that our political policy towards Japan is an extension of our economic diplomacy. Our aid diplomacy with her is part of the IGGI framework, that is, to integrate a bilateral relationship in a multilateral framework. Over the period this has resulted in progressively more liberal terms of Japanese aid (rate of interest, degree of untying, amount of aid and terms of repayment) and given the size of Japanese aid to Indonesia this fruitful relationship may well have contributed to the progressivity of the international aid system.

Private investment relationships are also characterized by close contacts and dialogues between governments and private industry and have resulted in an impressive entry of Japanese capital into Indonesia. This sudden and concentrated inflow is now producing reactions from the public (students, indigenous business groups, press) as forms of indigestion, and the grievances have to be dealt with properly, both by the Indonesian government (who was largely responsible in sanctioning the entry) and the Japanese business community. The latter should learn how to integrate into the local community of a host country in a better and faster way. The Indonesian participants attending the second stage of the conference in Bali (a more selective group than the broader audience in Jakarta) stressed that there is no cause for alarm if appropriate corrective action is taken.

In the field of trade relations Indonesia does not experience the same problem as Thailand because our balance of trade with Japan can easily be positive. Nevertheless, trade relationships between developing countries and industrial giants such as Japan are very important as a vehicle for economic development and hence should be accorded greater attention. In this respect is significant that Indonesia is playing an important role in the ASEAN regional groupings efforts to collectively strive for a better deal in their trade relations with industrialized countries. Japanese spokesmen at the conference indicated that the development of ASEAN is important for Japan if only because of the fact that Japan can deal with a single entity rather than with five individual countries. Japan,

having a global orientation, likes to see a reduction in the number of dialogue partners for practical reasons. For us it is also better because it could strengthen our bargaining power.

With respect to international trade it is not yet clear whether the Asean countries prefer a more global and multilateral system or a more regional market arrangement, and in the case of the latter how the relationship with Japan should be determined. The conference did not explore these areas in any detail.

Political, security (or military), cultural and other aspects of interrelationships were also not too deeply discussed in this first meeting and thus could be probably taken up in future meetings. The laying bare of each other's internal views legitimately took up most of the time of this first meeting.

Options for the Future

The need for better, more intensive and more frequent communication was stressed throughout the conference. The cultural differences between the two countries are very great and communication barriers are numerous. Regular forums, bodies or institutions were also proposed to serve as a clearing house, a means for consultation and even mediation. For instance, in Indonesia a council of "wise men and prominent figures" could be set up to mediate at times of differences of opinion or clashes of interests. For many Indonesians the setting up of an Indonesian ("Lembaga") or American style Foundation, i.e., a non-profit organization carrying out activities financed from donations and other income, is apparently attractive. A jointly sponsored Japan - Indonesia Foundation was a popular idea among the Indonesian participants in Bali, however, there was no immediate response from the Japanese parties, possibly because such institutions are not common in Japan.

The avenues to progress along the road of economic cooperation and improvement of the system of relationship are now more fully known. From the Indonesian standpoint they entail an improvement of her bargaining power, strategies and skills in a wide field; they also consist of efforts to increase the flow and transfer of resources from North to South, from Japan to Southeast Asia, through investments, trade and aid.

The opportunities in the political, cultural and security fields are less clearly visible, at least for this writer. It would be of great benefit if Japan could align herself more closely to the interests of the developing countries in world politics, for instance, in the solution of the world monetary crisis, the world trade system, as well as other problems in which the developing countries while having much at stake are little heeded in the halls of governments in the advanced countries.

Influence of the Mood of the Time in Jakarta

In the mind of the political public in Jakarta the honeymoon with foreign investment and foreign aid is apparently over. The economic progress of the last five years has produced the not so palatable social by products of conspicious consumption, a widening gap between the rich and the poor, charges of corruption, etc. Since foreign aid and foreign investments have been important elements in the policies of the government, these are now blamed for accentuating the distortions. The criticism is unfair but the mood is there. Anti-Japanese feelings are also more pronounced now than at earlier times. All this has colored the statements of several Indonesian speakers, especially in Jakarta. It may be a blessing in disguise that this first encounter occurred under such circumstances, because the other side of the medalion was not spared. On the other hand, there is still a genuine desire for understanding and cooperation. And after all, the mood in Jakarta is also present in other capital cities in Asia.

THE ECONOMIC FUTURE OF THE PACIFIC BASIN

Sumitro DJOJOHADIKUSUMO

Introduction

My observations on the economic future of the "Pacific Basin" can be no more than a "synoptic view" of selected and interrelated problems and problem areas of the region, which have a bearing on the likely course of events in the decade(s) ahead. My views are inevitably influenced by a Southeast Asian perspective, but they are presented with a deep awareness that our problems are inextricably part of a wider context. Future evolution is determined by the constellation of prevailing conditions, the underlying internal dynamics in the social process of the respective societies, and the external impulses emanating from exogenous (in our case: trans-regional) sources[1].

The Pacific Basin can not as yet be viewed as a "community" with its own arrangements. Whether or not the Pacific Basin or parts thereof emerge as a distinct economic entity, the fact remains that it is and will remain a region where the convergence of major power interests and the interplay of attendant forces influence the "world balance" with increasing intensity.

Hence, the future of the Pacific region is part and parcel of the course of events on the international scene. It is subject to the same

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* The present article was originally a paper presented to the Conference on "Business Opportunities in the Pacific Basin", held in Singapore on October 2 — 4, 1973, organized by The Financial Times, Business Enterprises Division, London.

1 I have dealt with the theoretical aspects of the relations between internal social dynamics and external impulses more elaborately in previous writings. Cf. "The Future of the Pacific Community — an Indonesian View", May 1972; also "Facing the Issues of Growth — Southeast Asian perspective", June 1973.

influence of interests and motivations that govern relations among and between the super powers and the major blocs, but where nevertheless the smaller nations need not necessarily be passive and helpless pawns in games played by others. The fate of smaller nations (and their groupings) depend as much on their ability to anticipate and respond to changing environments as on their determination to cope with the social dynamics within their own societies.

The Main Characteristics of Future International Relations

The political aspects, intertwined as they are with economic and other interests, are enumerated here, briefly and in generally simplified terms, as they bear directly on the problems and prospects of the Pacific Basin. The following propositions appear plausible:[1]

The détente between the U.S. and the Soviet Union will continue, and so will (hopefully) the thaw in the relations between the U.S. and China. Tension between Moscow and Peking will perpetuate, at least in the present decade. The generally accepted view that the U.S. will be more inwardlooking should not be taken to mean that their role and interests in the Pacific Basin, as elsewhere, will be reduced, although their "presence" is likely to take on different characteristics. The view is gaining ground, especially after the Chinese Communist Party's Xth Congress that China will adhere to a "pragmatic" approach, and may become even more outward-looking; yet it will be mainly in the sense of preserving and developing the required flexibility and manoeuvrability in external relations. However precarious the balance at the top hierarchy of its leadership, as reflected by the composition of the Party's politbureau, and particularly of the latter's innercore "group of nine", it is plausible that China will have to give priority — by force of circumstance, if for no other reason — to the demands of reconstruction and development and to pay heed to the realities of international politics. As in the case of the U.S.S.R. China's policies are dictated by national interests, while ideology has become a policy tool. The Soviet Union while resentful of the

1 I have greatly benefitted from Sir Robert Scott's "East Asian Speculation", in *Pacific Community*, October 1971.

continued U.S. military presence in Europe, even on a reduced scale, will maintain a policy of détente with the U.S. and one of accommodation in Europe. This is in order to devote more attention to Asia, in view of its preoccupation with China. Hence its approaches to India and Japan, its assertion as a naval power in the Indian ocean and its visible endeavours to seek and gain influence in Southeast Asia by diplomatic and commercial activities, by the services offered at more than competitive terms of its banking, merchant marine and air transportation systems. It is not hard to visualize that the Soviet Union, either directly or in cooperation with other members of COMECON, is actively seeking ways and means to assist and participate in development programmes and projects.

Japan has become a political power by virtue of its economic strength. It has never been a question that Japan — a major force among the economic agglomerations of the world and the major economic "pole of concentration" in the Pacific Basin — would play a political role, sooner rather than later. The question is how, where and in which fields it chooses to play such a role and, ultimately: to what political ends will Japan apply its economic power? A main consideration is provided by Japan's overriding need for access to the sources of energy fuels, minerals and industrial raw materials and to export markets practically anywhere and everywhere, and not in the least in the advanced countries, for safeguards pertinent to long-distance maritime and air transport. Generally speaking therefore, in addition to an obvious stake in international economic and monetary stability for the longer run, Japan's political role will have to be aimed at fostering the international climate on which its interests depend. Prima facie Japan's political role may be expected to be one of "active neutrality". There seems to be a similarity of interest with the Southeast Asian nations, although for a different set of reasons.

For some time I have maintained — and I shall explain in more detail later — that close relations between Southeast Asia and Japan are inevitable and desirable to both. Again, the question is how and on what terms and conditions? In order to find and develop a sense of equity in such relationship, a conscious and consistent effort must be made to that effect by the political leaders and business executives of both countries. Complementarity of economics and seeming similarities of interest do not necessarily and of

themselves lead to accommodation and smooth cooperation. What is considered convenient complementarity by one party, can easily be interpreted by the other — often with justification — as subordination of interests, and even de facto subjugation.

There is no doubt that Japan's influence, already so much in evidence in the Pacific Basin, can be of great value as an important external stimuli to the economies of Southeast Asia. But in the light of the particular tenets of societies in transition, convergence can also contain walls of friction and social tension. To prevent them from exploding with the numerous chain effects that tend to disrupt the very need for a climate of stability, a continuous assessment must be made as to whether, where and when convergence of forces and interests will bring about cooperation or may on the contrary lead to friction and outright conflict. The notion that Japan, because of its history of success in industrial development and modernization, initially built on and around small and medium size industries, provides an appropriate model for the development pattern of Southeast Asian countries, appears shallow to me. So also do related opinions that, having gone through a period of alien occupation not long ago without succumbing to cultural imperialism, Japan would therefore be likely to be sensitive to feelings of national pride and attitudes of frustration in the less developed countries[1]. In the first place, Japan's present level of development has been attained through a continuous process of consistently high annual growth rates, accompanied by disparities in the distribution of income, relatively high rates of unemployment (albeit often of a disguised nature) and at the expense of neglect of social aspects for a long period continuing until only recently. Such policies were possible only because Japan's social fabric constitutes the root for its remarkable national cohesion. The traumatic experience of her defeat in World War II has merely given added impetus to the collective national effort in response to the challenge of post war reconstruction and development.

Transplanted to the contemporary setting of Southeast Asia under prevailing conditions where a more equitable distribution of income and sharing in the benefits of progress — at least a sense of that effect — constitute an important dynamic factor on which the success of development programmes hinge, I cannot see that

1 Cf. Philip Shabecoff: "Japan and Asia — Closing the Development Gap", *Pacific Community*, October 1971.

policies along similar lines will not backfire long before a process of growth will have found its own momentum. By the same token, Japan's brand of capitalism, its systems of industrial relations, its ability to coordinate public and private sectors for the achievement of difficult goals worked out by "consensus" are too intertwined with distinctive Japanese social and cultural values, and unlikely to be successfully "transferred" without adaptation to alien environments[1].

As to the sensitivity of Japanese enterprise to other nations' pride, prejudices and frustrations, contemporary evidence points at times to the contrary. This is attributable not so much to the so-called "built-in" personality characteristics and inclinations of the Japanese as to the fact that Japanese companies (or rather their representatives) because they are relatively new on the international scene (compared to international companies based in Europe or the U.S.), display an unabashed urge to expand rapidly and to maximize results over a shorter period, and hence do not appear to be too concerned with their image.

I have discussed Japan's role and relations vis-à-vis Southeast Asia at some length mainly to emphasize the need for persistent communication, entailing confrontation and reconciliation. However, all things considered, it should be possible — because it is necessary — to work out a "modus operandi" where the interests and requirements of the Pacific area's most powerful country can be made compatible with the attainment of the policy objectives of the smaller nations in the Southeast Asian sub-region.

The long-awaited international conferences on trade and monetary matters, the Multinational Trade Negotiations in Tokyo and the IMF conference in Nairobi are behind us. The Tokyo conference has agreed to further negotiate to produce trade arrangements for 1975, and for eventual implementation over the period until 1980. The Nairobi meeting has agreed to defer arrangements on monetary reforms until mid-1974.

We can well imagine an interminable period of discussions on the technical aspects of tariff discrepancies, non-tariff barriers, agricultural policies, farm trade problems, safeguard mechanisms, rules for parity changes, dollar convertibility, (SDR or gold?),

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1 A considerable time span is involved in the process of adaptation and the connotation of "adaptive technologies".

revaluation or devaluation, all of which lead back with predictable monotony to the questions: to what degree, when and through which procedure? When all is said and done, it is a matter of political decision, primarily on the part of the U.S., the EEC and Japan to come to terms: For Japan to open up its economy with the concomitant adjustments in its own systems and procedures, if it wants to minimize obstacles and restrictions in its external markets; for the U.S. and the EEC to make appropriate arrangements with each other; for the U.S. to realize that somehow other parts of the world want payments in dollars that can be converted into something else; for the EEC to comprehend that an important clue to the balance of payments riddles of the U.S. lies in enabling the latter to expand their exports of agricultural commodities, and the output of such industries as electronics and the aircraft industries, if the U.S. is to refrain from cutting down on aid, military expenditures and from further protectionism; for the EEC and the U.S. to keep in mind that Japan's penetration into their markets is based primarily on its development of technology, productivity and the superb efficiency of its production units as well as its distribution and purchasing organizations — the very gospels of the industrial civilizations of the West. There is further the general problem of social dislocation, affecting both the conservative trade union movement in the U.S. and the agricultural sector in Europe, and here it would appear better all around to introduce outright income subsidies to the dislocated sections of the population rather than perpetuate the protection of sectors and industries that are barely viable due to structural shifts and changes. Such a policy would also have a beneficial effect on the exports of the developing countries and give substance to the generalized system of preferences (GSP).

However, until and unless such political decisions by the major powers are made and a set of institutionalized rules for policy management of trade and currency matters are implemented, we have to make do with the present arrangements. In the monetary field current arrangements already embody much of the flexibility that reforms were intended to achieve, although this has been achieved more by muddling through rather than by design; while prevailing trading arrangements and procedures reflect the spread of economic regionalism.

It is realistic to view world economic activities, not in the least those pertinent to the future of the Pacific Basin, as evolving from and around the agglomerations of economic power: the U.S.A., EEC, Japan, COMECON, and more recently China who is also emerging as such an entity. In addition there is one particular kind of economic concentration, the multinational corporations that operate with decision rules that transcend even the framework of supranational blocs, let alone the boundaries of nationstates.

Whether these agglomerations are trading blocs or countries such as the U.S.A. and Japan that can independently match the strength of regional grouping or are multinational corporations, they are centres of great bargaining power. They represent economic entities of such importance that their performance will largely determine the volume of world trade. They create larger cohesive units within which internal political or economic pressures work to mould the commercial policies of bigger segments of the world trading system. They are also geopolitical facts and exert a political impact by their actions as well as by their inaction. Trade policies and trading activities are influenced by geopolitical considerations or they stimulate geopolitical changes, or both. Whatever takes place has a high content of international political and geopolitical considerations. The net impact on future trade of such agglomerations, whether expansionary or on the contrary diversionary and restrictive, is difficult to predict. The omens are, as yet, far from propitious. When the spread of economic regionalism is accompanied by growing protectionism, the first countries to lose out are the poorer ones as we in Southeast Asia have experienced for the past number of years.

Southeast Asia: ASEAN

All the countries of Southeast Asia have open economies where external economic relations figure prominently as strategic variables to national income, public revenues and the availability of foreign exchange. The respective governments are struggling to increase production and income in an expanding range of sectors, to create employment opportunities in the face of population pressures and to cope with perennial balance of payments pressures.

Where Southeast Asian countries are endowed with natural resources, the "leading growth sectors", viz. those that make a relatively greater and faster contribution to an increase in national income, are connected with the "new" (in the sense of non-traditional) sectors of productive activities: the extractive industries and manufacturing. These are not normally very labour absorptive when compared to the surplus population of the traditional agricultural sectors; at least not in the early stages before they have generated the possible secondary effects of "forward and backward linkages" in industrial activities. Even then absorption of the surplus population by these growth sectors is neither smooth nor speedy.

Meanwhile about two-thirds of the population find their livelihood in the traditional areas of primary production. The burdens of disguised unemployment, reduced productivity and income are continuously and acutely felt due to continuing population increases. Growth when accompanied by diminishing employment and stagnant incomes in the rural sectors generates the social tensions and counterforces that tend to nullify what has been attained in terms of production increases. Governments must therefore rapidly reinvest the incremental revenues from the growth resources to broaden the basis of development. In the process they must face the political decision — or rather a sequence of political decisions — as to where the proper balancing points lie between growth requirements and considerations of population policies. Difficult as such decisions are, they must be taken within the constraints of limited available resources, as these refer to both domestic resources (public and private savings) and to external sources (official development assistance, "ODA", and private capital inflow).

The Southeast Asian countries are in the main producers of primary commodities (including the extractive products: oil, minerals and timber) and in the case of Singapore, a producer of services and of merchandise related to the output of surrounding member countries and of merchandise geared to the needs of the nearby markets and recently also of those of advanced countries. Unfortunately the trade picture of these countries has been so far characterized by features that undermine their trade position. There is a regular decline in our terms of trade, aggravated by short term cyclical fluctuations. This has been painfully felt specifically during

the recent period of recession from 1969 until the end of 1972, particularly for exports of agricultural produce and light manufactures. The "commodity-boom" which had set in was of short duration, only through August of 1973. Even so, while the prices of many commodities were booming, the value of their earnings was simultaneously whittled away by inflation in the advanced countries. Since September 1973, prices have again shown a down turn. The expectation is that they will fall further towards the end of 1973 or in early 1974, though they will not again sink to the low levels of 1972[1]. The fall will be greater with respect to industrial raw materials such as rubber, copper and base metals, however, food prices will remain high with the continuing shortage of wheat and soy beans. The world's granaries are reportedly desperately low, and for Southeast Asia with the possible exception of Thailand the going will be rough in this regard.

The somewhat longer-run prospects over this decade seem more favourable for Southeast Asia's exports. This is with a view to the emergence of the "new markets" of East Asia and the western Pacific: Japan, Australia, and also Korea, Hong Kong and Taiwan. The rising incomes and the growing industrial complex in these "new markets" are generating a strong demand for food (meat, fish, vegetables and animal feed), agricultural commodities (coffee, copra, palm oil, tea and rubber) as well as the products of extractive industries (crude oil, hard minerals and timber), all of which happen to be among the current output and resource potential of our sub-region.

The demand in "East Asia and the Western Pacific" taken together is expected to provide a growth potential for the exports of Southeast Asian countries of some 7.3% per year, with the main impetus coming from Japan. In comparison, the United States' market is expected to generate a potential growth in Southeast Asian exports of 4.4% per annum. In this context it is assumed that the demand in Western European countries for the products of Southeast Asia may well remain stationary and provide no growth for Southeast Asia's exports[2].

In absolute values Western Europe remains of course most important to our exports. With the United Kingdom having joined

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1 *The Economist*, 8 September 1973.

2 Report of the Asian Development Bank: "Southeast Asia's Economy in the 1970's", November 1970.

the EEC, this represents a market of 250 million people with a high purchasing power. Yet in relative terms of the rates in export increases, there is likely to be a shift away from this area towards East Asia, the Western Pacific, and the United States.

ASEAN is in its broader meaning a community of political entities joining hands in search of ways to increase mutual accommodation in the sub-region of Southeast Asia and to develop a joint approach and a common stand vis-à-vis external interests, problems and issues. The Association comprises the member nations of Indonesia, Malaysia, the Philippines, Singapore and Thailand[1].

ASEAN is likely to emerge in the near future as an important instrument for trade and development. Groupings in the developing world, ASEAN and likewise the various African and Latin American groupings are at a much earlier stage of evolution than the EEC and COMECON and are also looser and less effective in operational terms. Yet it can be expected that the poorer countries in their attempt to adjust to rapid changes in the world trading system will increasingly seek to conduct their relations with EEC, COMECON, the U.S. and Japan through these mechanisms. Also the geopolitical consideration comes to the fore that an immediate regional solution to some existing problems may be the only practical and constructive way to preserve national independence in an atmosphere of interdependence.

Member countries of ASEAN constitute the nucleus of regional producers' associations for various commodities, notably rubber, copra, maize and tapioca, in order to maintain and improve our position in the world market through standardization of production, quality control, joint research, and related activities.

Despite the recent stagnations in major industrialized countries, the growth rates in ASEAN during the past 4 to 5 years have been satisfactory. Singapore's record was particularly impressive with an annual rate of growth of 10%; but even in Malaysia and Indonesia the relative rates were close to a 7% yearly average, with Thailand and the Philippines at least 5% average per annum.

The population of ASEAN countries included in 1970 more than 200 million persons while the projection for 1980 is 258 million

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1 The nation-states of the Indo-China peninsula may or may not wish to join at some future date. As matters stand they are still going through a painful process of finding the modalities that may lead them to social rehabilitation and economic reconstruction.

people[1] of whom, not less than 155 million will live in Indonesia. About 67% of those economically active are at present engaged in agriculture.

Trade, domestic and foreign, is of vital importance to ASEAN countries. In Indonesia, Malaysia and Thailand, about 20% of national income originates from trade, in Singapore the figure is approximately one third, while in the Philippines the trade sector contributes 11% to the national income[2].

On the other hand, ASEAN countries together supply less than 2% of world exports. This figure does not reveal, however, that these countries have leading positions on the list of world suppliers of natural rubber, tin, palm oil, tropical hardwood and other raw materials. ASEAN's relative share in world exports has actually declined from 3.2% in 1960 to 1.9% in 1971.

ASEAN and EEC

Exports to the EEC for all ASEAN partners range from 6 to 15% of their totals. However, the ASEAN total amounted to less than 1% of total 1971 EEC imports (before the U.K. joined the EEC). In 1971 the value of ASEAN export to EEC was close to 800 million dollars[3]. The direction of ASEAN exports has been dominated by the sale of natural rubber to the EEC countries with large automobile industries: West Germany is the leading EEC market for ASEAN countries, followed by France and Italy, while the Netherlands was a relatively important trade partner for all ASEAN countries. On the other hand, ASEAN imports from the EEC rose from 300 million dollars in 1960 to 800 million dollars in 1971. The balance of trade between ASEAN and the EEC was positive for ASEAN until 1967, however, this has since turned to a deficit. For the majority of ASEAN countries and for ASEAN as a whole, imports from the EEC have grown more rapidly than exports. In addition, the growth of ASEAN exports to the EEC has neither matched the growth of total EEC imports nor has it

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1 Report of a United Nations Team: "Economic Cooperation for ASEAN", 1972.

2 Netherlands Economic Institute: "A statistical Analysis of ASEAN - EEC Trade Relations in the Sixties", February 1973.

3 The enlargement of the EEC at the beginning of 1973 means a doubling of this export market for ASEAN.

kept pace with other competing suppliers from the developing countries. ASEAN's relative market position in EEC has declined.

On 16 June, 1972, the first official meeting took place between the EEC commission and the ASEAN nations, marking what was seen as the beginning of formal institutional links ("institutionalized dialogue" was the terminology used). The nine nation EEC summit conference in October 1972 adopted a joint declaration stating, a.o. that the increased effort of the Nine will be "in the framework of a world wide policy towards developing countries". Progress to date has been painstakingly slow, if in fact any has been achieved for ASEAN in its relationship with EEC, continued protestations of sympathy notwithstanding. Not even a permanent machinery has as yet been created within EEC to deal with ASEAN matters. This is somewhat disappointing, particularly given that a different group of other less developed countries has gained privileged access to the EEC, thereby creating distortions in terms of access to its markets.

By contrast the EEC will be holding talks later this month with 44 countries of Africa, the Caribbean and the Pacific islands (Solomon and Fiji).

The existing agreement between EEC's original six and nineteen African States (originally the Yaunde Agreement) is to be extended to commonwealth countries of Africa, the Caribbean and the Pacific. The current recommendations entail preferential treatment and a virtual waiver of reciprocity by providing the possibility of invoking the safeguard clause for the benefit of associate members which would give them leeway to apply import restrictions. More important the respective EEC memorandum, prepared as far back as April of 1973, also contains recommendations in order to ensure stability in export proceeds of associate members, entailing provisions as to quantity and price. The products concerned comprise sugar, groundnuts and groundnut oil, cotton, cocoa, coffee, bananas, copper, and possibly also citrus fruits, copra and coconut products.

The fact that the EEC commission has gone to such lengths to prepare concrete and detailed proposals for the benefit of a specific group of less developed countries (an enlarged Yaunde), is in sharp contrast to its ambivalent and discriminatory attitude

vis-à-vis ASEAN. The argument of historical, legal and moral obligations (towards former colonies) is wearing rather thin.

ASEAN will, of course, keep knocking on EEC's door. It can hardly afford not to do so in view of EEC's importance as a market, and generally as potentially the most important of the trading entities in the world system.

ASEAN Regional Cooperation and Intra-Regional Trade

In the light of the above observations, the development of the neighbouring markets of East Asia and the Western Pacific, referred to earlier, will be all the more important to Southeast Asia's future.

A further important aspect of these developments is the increasing dependence on a few markets. With trade with Japan being a case in point. Japan's share of the exports of Southeast Asia[1] is already estimated to be approximately 25% and current projections put this figure at around 40% by 1980. This means that for some individual countries in our sub-region the Japanese share of exports will be 50% or could even exceed 60%. Dependence to such an extent is economically undesirable as the Southeast Asian countries would be subjected to the monopolistic powers of a few selected corporations. It also means that changes in Japan would have serious repercussions on such countries. Excessive dependence is also politically and socially disturbing. Japan's share in Southeast Asian trade has increased and will continue to do so while conversely the share of Southeast Asian countries in Japan's trade has decreased and will continue to do so. As a consequence, the former is expected to be very large by 1980, while the latter will be almost insignificant by that time, particularly if any single country is considered. This would amount to domination that could be a main source of social tensions and political frictions. This is what I had in mind when I mentioned earlier that complementarity between regions or sub-regions, apart from obvious benefits, has also the danger of subordination and even de facto subjugation as its twin

[1] Including Vietnam, Khmer and Laos.
Cf. International Development Centre of Japan: "Economic Development Cooperation in Southeast Asia", February 1973.

aspects[1]. These factors add to other equally important considerations that point to the necessity for ASEAN to increase intra-regional trade more rapidly. They extend beyond the motivation — most relevant by itself — to reduce its dependence on a limited number of external markets, as outlets as well as suppliers. On available statistical evidence it appears that absolute levels of trade flows among ASEAN countries did not rise convincingly during the past decade. Yet, current conditions and future trends make it necessary to direct ASEAN cooperation towards an expansion of intra-regional trade. We are constantly reminded of the present obstacles to gaining access to the developed countries' markets for our processed commodities, semi-manufactured and manufactured goods. Arrangements for intra-regional trade give a firmer foundation for a steady industrial development at an accelerated pace within our sub-region. Industry here generally has developed where relatively small-scale production is efficient and where there are the advantages of transport costs through meeting local demands from local production. But ASEAN countries have remained heavily dependent on imports in those industries in which there are considerable economies from large-scale productions.

Inherent characteristics of the process of development are the constraints imposed by the difficulties of providing the necessary savings to finance the required investment in fixed capital coupled with those imposed by the difficulties of the balance of external payments. The "gap" in domestic resources as well as the balance of payments gap have so far been covered by official development aid (ODA) and by private capital inflows, or they have entailed a depletion of foreign exchange reserves.

The imports of ASEAN countries recently have been concentrated on certain raw materials and on capital goods which for the ASEAN countries as a whole now represent close to 60% of all imports, with imports of goods and other cousumption goods arouud 30% of the whole. This compositiou reflects the pattern of expenditures for capital formation. The total of fixed capital

1 On previous occasions I have registered my misgivings on behalf of ASEAN about the kind of proposals for a "Pacific Free Trade Area", which are conceived us arrangements involving mainly the advaneed powers of the Pacific: Japan, Australia, New Zealand, Canada and perhaps also the U.S. They would in their particular brand, perhaps unwittingly but effectively condemn the less developed part fo the Pacific Basin to remain raw material producers in perpetuity.

formation in ASEAN in 1960 was just over US$ 2.0 billion, a figure which projections indicate will increase to approximately US$ 13 billion at 1960 prices by 1980. Investment in machinery and transport equipment has increased more rapidly than that in dwellings and other construction, a trend which is expected to continue into the future. The total estimated market in ASEAN for machinery and transport equipment by 1980 is US$ 7.5 billion, which is more than three times as large as it was in 1968.

The trend of the past decade, if continued, would result in a balance of payments deficit by 1980 for ASEAN as a whole of some US$ 1 billion[1]; a level, probably too great to be financed by ODA or private (foreign) capital inflow. Hence the consequent desirability of expanding regional production. A policy of industrial production in the ASEAN sub-region does not therefore represent an indulgence to "prestige" or "image", nor a predilection per se towards protectionism. It is the result of a cold appraisal of the facts and trends of present conditions as well as of the future potential of the area.

The study undertaken by the United Nations Team on the feasibility of planned cooperative development of larger industries point to some interesting possibilities. The study covers 13 industries which were carefully selected. Small scale industries that can be developed efficiently on a national basis were excluded. A few of the thirteen were very large-scale industries which lacked economic justification for introduction in the ASEAN region even on the basis of a unified regional market. The thirteen industries actually studied were expected to be substantially more economic on a regional than on a national basis[2]. The results of a cooperative project in each industry to meet total regional demand were compared with the development of the industry largely on a national basis to meet domestic demand. The preliminary findings indicate very marked economies of scale in capital expenditure and in production cost, resulting also in considerable foreign exchange savings. The final report on these regionally planned industries will be submitted within the next few months to a special Advisory Board of ASEAN,

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1 Cf. U.N. Team: "Economic Cooperation for ASEAN", 1972.

2 The studies related to a number of chemicals and intermediate goods: nitrogenous and phosphate fertilizers, carbon black, caprolacium, glass, small engines, compressors, dimethyl terephthalate (DMT), typewriters, newsprint, steel, soda ash and ethylene glycol.

consisting of the Heads of the Planning Agencies of member countries.

At this stage, it suffices for us to observe that through a policy of regional cooperation a complementarity between ASEAN member countries can progressively emerge with each country able to develop on a large scale those activities for which it is particularly suited in terms of natural resources and available skills and to trade within the region for products in which the other countries have a comparative advantage. Thus, it would be the application of the principle of comparative advantage in a dynamic sense: regional cooperation between developing countries would form the starting point for a substantive rectification of the comparative disadvantages from which the less developed countries have hitherto suffered vis-à-vis the developed world.

Admittedly there has been little or no progress in the direction of regional cooperation for industrial development; not even in preparatory activities. The view often held by foreign investors in this connection that each country is still "too busy getting its own house in order" is probably true. Yet, I believe that again force of circumstance will impel the member governments of ASEAN to take the required steps before long.

Another reason why the respective governments have shown a seeming lack of interest is probably their hesitance to provide arrangements for regional markets in respect to such industries while not knowing who or which corporate entities would own and operate them. Governments must be seen to be providing the conditions for national participation rather than merely be letting their nationals passively receive the incremental benefits of foreign enterprise (multinational corporations) no matter how great such benefits may be.

It was in such a context that I ventured the idea that concrete projects be set up on a regional (ASEAN) level as joint-industries with participation from all member-countries: governments (e.g. through their agencies such as development corporations or development banks) as well as private interests. Foreign companies, whether or not these be multinational corporations or consortiums, would be invited, with regional interests preferably holding majority equity interests. Professional management would be employed in agreement with the foreign partners. R. & D. obtained through

licensing arrangements, and loan finance raised from such bodies as the Asian Development Bank, World Bank or in the Eurodollar, Eurobond markets. For projects along these lines, ASEAN governments would be more inclined to provide regional markets for the ventures' output by means of tariff policies and other legal and incentive provisions. By the same token the governments of ASEAN would be less concerned about geographic locational issues, as all the member countries would hold equity stock. Locational problems appear to represent a major difficulty at the present time in organizing regional industries. In addition to the 13 industrial projects studied by the United Nations Team, it would seem to me that regional timber based industries (saw mills, plywood, veneer, pulp plants) and ASEAN joint shipping companies are desirable, necessary and overdue.

Establishment of regional industries along the lines set forth above would not lead to economic isolation of ASEAN from the rest of the world ASEAN will remain outward-looking by virtue of its geographical location as much as by the dictates of the economies of member countries. Rather what such regional cooperation would mean is that ASEAN countries could become more fully integrated in the world economy, no longer primarily as suppliers of raw materials but as broadly based and fully competitive members of the world community.

By preoccupation with Southeast Asia/ASEAN as the less developed sub-region of the Pacific Basin does not mean an across-the-board delineation of interests between ASEAN on one side and the other more advanced countries of the region on the other. That would be too simplistic an approach and too limited a viewpoint. A case in point is the common interest between Australia and Southeast Asia; with particular reference to Indonesia. There will be in the coming decades increasingly close cooperation between Australia and Southeast Asia for geopolitical strategic considerations as well as on sound economic grounds. Apart from the element of complementarity which is indeed there, though not yet fully utilized, there are also common problems with respect to natural resources. This decade and the years well throughout the 1980's will be dominated by the problems surrounding energy and minerals. Energy fuels and minerals are the basic materials upon which the modern industrial world is founded. At this time they are already causing serious concern to the major agglomerations and entities of economic

power. We have reached the end of an era when energy and natural gas were cheap.

Within the combined land and sea boundaries of Australia and Southeast Asia, we have deposits of energy fuels (oil, natural gas and coal, and very likely uranium) and such minerals as iron ore, nickel, copper and bauxite. The known deposits, on- and off-shore, may at this time be regarded as marginal in terms of world output, however, in view of the anticipated supply and demand situation until the middle 1980's, it would be a luxury to disregard marginalities.

On the island of Java alone there is an enormous alternate supply of energy from dry steam which is practically non-depletable. There is furtther the rush for seabed minerals, the manganese modules containing amounts of copper, nickel and cobalt. Howard Hughes already has his giant mining ship moving and it is anticipated that other American corporations such as Deepsea Ventures/Tenneco, Kennecot and International Nickel will follow suit. Japan is building, under direct sponsorship of MITI, an US$ 8 billion mining ship, which reportedly will be operational by March 1974 for prospecting near the Hawaiian Islands. The French Firm CNEXO is conducting or is about to do so, exploratory mining cruises close to French Polynesia. It would seem at least reasonable to speculate that the seabed of Indonesian and Australian waters will also prove to contain such minerals of value in the foreseeable future.

All this provides ample justification for Australia and the Southeast Asian countries adopting a common stand and evolving a common approach. First there should be a thorough inventory of natural resources compiled to form the basis of a subsequent common approach to both resource policy and to resource management. The development of mineral resources must be based, more than ever, on an equitable distribution of the benefits both to the owners of the deposits and to investors-operators; and at this with continuous regard to conservation (land restoration and minimizing waste) and environmental control.

KNOWLEDGE ECONOMY AND WORLD ECONOMY

Daoed JOESOEF

Introduction

A rather striking fact about technology in our country is that it has not revolutionized our economic, social and politicel orders, if not the economic, social and political ways of thinking prevailing among those members of our society who are supposed to be its intelligentsia. Their statements and attitudes not only show that they are unaware of how technological progress is going to change our world but also that they do not know and do not even bother to consider how they would like it to change our world. And when technological progress takes on the appearance of a threat they quickly trump up obsolete twentieth-century "revolutionary" slogans like "neo-capitalism" and/or "neo-imperialism" merely to cover up their own failure to carry out their mission as the educated group of society.

This article intends to demonstrate the dimension and nature of the problem that we are facing as a consequence of both technological development and its application in the economic field, and in so doing hopes to stimulate the search for the right answer. It goes without saying that any given problem may have more than one possible answer and that these answers will each have their specific consequences. Accordingly this article will be divided into two parts: the first discusses the problem being faced and the second attempts to offer an answer which must, however, be regarded only as one among conceivable alternatives.

I. The problem

If technology was responsible for the change of the "industrial economy", which was known long before the first world war, into a "service economy", its rapid development after the second world war has turned the latter into a *knowledge economy*. In this kind of economy, computer and information processing constitute its distinctive industries, knowledge worker its typical employee, research institute at the industrial centres its engine of progress and innovation — a function that used to be fulfilled exclusively by similar institutes in the universities — while the urban metropolis, markedly different from the older industrial-commercial "city", its distinctive human habitat[1].

In the field of exchange of goods and services, technology has gradually converted the older "international economy" into a "world economy" through the change that it has brought about from the older "factors-of-production" economy to the "knowledge" economy. As a consequence of these changes trade among nations is no more a matter of the complementary provision of goods and services in which, as suggested generally by economic textbooks, Britain sends textiles to Portugal and gets Portuguese wine in return. But oddly enough this principle of complementarity is still taught today at economic faculties as being "the rationale" of "the international trade". There seems to be too little awareness that trade grows most vigorously, in volume as well as in value, between nations having more or less the same level of technical civilization and that are converging in their economic and industrial systems. Thus America finds it very difficult, for instance, to trade with the "complementary" economy of India, but very easy to trade with the "parallel" economy of Canada[2]. A similar difficulty would be encountered in the trade relations between the other developed countries like Japan, Australia and the West European countries on the one hand and the developing nations of Africa,

1 Cf. Irving Kristol, "The new era of innovation", *Fortune*, February 1969, p. 180. See also Peter F. Drucker, *The Age of Discontinuity: Guidelines to Our Changing Society* (New York: Harper & Row).

2 Irving Kristol, *op. cit.*, p. 190.

Asia and Latin America on the other[1]. This being the situation it should be clear that the fact that the developing nations are not getting a proper and fair share in the benefits of international trade is merely caused by the instability of the prices of raw materials or the continuous prevalence of unfavorable "terms of trade". These two problems do exist but they are only additional to a problem of more fundamental nature, namely, the fact that the level of technical civilization of the developing countries is still too rudimentary to develop their economies as "parallel" as those of the developed countries.

The world economy did not come into being through the efforts of men of the classical explorer-type such as Columbus, Livingstone and Captain Cook, nor of men of the colonial officer-type like Raffles and Daendels, or the modern industrialist-financier-type like Krupp, Morgan, Rockefeller etc., but through the work of *knowledge workers*. Unlike the manual workers of the 19th century and earlier, the knowledge workers of today are not content with work that merely produces livelihood. They have other ambitions that they try to achieve through their intellectual activities, i.e. to be the leaders in almost all spheres of life. They are in a position to do so since they are all active and working in virtually all branches of productive activities, in government (civilian as well as military), in the private sector (business, journalism, etc.) and in mass organizations (political parties, popular movements, etc.). It is from them that a "new nationalism" has emerged, which is the idea that a nation's prosperity is no longer a function of a limited horizontal factor such as the size of the territory of a state as used to be assumed under the medieval peasant's way of thinking, which in the past often led to wars, but depends upon an unlimited vertical factor, namely, technological development. One of the consequences of the application of this idea in the economic field is the formation of giant enterprises commonly known as "multinational corporations" (MNC). The director of a MNC no longer represents the interests of the country he belongs to but those of the company he works

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[1] Thus Prof. Kiichi Saeki points out in his paper that "............ the relationship of mutual interdependence between the advanced democratic industrial nations and the developing nations is drastically smaller than the one which exists among the advanced, developed nations......": this paper entitled *Sense and Nonsense of Economic Interdependence* was presented to the first Japanese-Indonesian Conference, held in Jakarta, 6—10 Dec., 1973.

for, whereas these two kinds of interest are not always in harmony with each other and sometimes are even opposed to each other. It is not surprising therefore that even in the developed countries the existence of MNC's often gives rise to political disputes[1].

On the other hand, it is realized that technology can develop rapidly and the results of its application be enjoyed in a more equitable way if the knowledge workers who are its moving force do not confine themselves to activities within their respective national boundaries, but are also prepared to go out beyond these borders and establish contact with their colleagues from other countries to hold regular and open discussions and exchanges of views. This is how international conferences are born, whether they are called "managers working conferences", "professors' seminars", "research experts' workshops", "colloquium of governments' officials", "scholars' or students' symposiums". The names of such meetings may differ but essentially they are all meetings of "men of analysis", students of problems of their own time, problems arising from the fact that human relations are increasing in frequency and scope though originating from different ways of thinking, cultural patterns and traditions. At meetings like these all problems are discussed openly, every proposed solution talked over methodically and thereafter taken home by the participants either for further consideration and reflection or for eventual application in their respective fields of work or to be sent, directly or indirectly, to their respective governments. By this way the mechanism and practice of diplomacy have in fact grown horizontally, in the sense that more and more people conform to the requirements of the "age of technology" and engage themselves in that branch of activity on their own responsibility, which previously was the exclusive domain of professional diplomats[2].

Thus if we limit our study to the economic aspect of the problem brought about by the progress of technology, we will arrive at

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1 For a more elaborate analysis on MNC see J. Panglaykim, "Western and Japanese multinational corporations", a paper discussed at the first Japanese-Indonesian Conference, Jakarta 6—10 Dec., 1973. Also Judd Polk "The rise of world corporations", *The Saturday Review;* Nov. 22, 1969, and Hamlin Robinson, "The role of multinational corporations in developing states", lecture at symposium of Malaysian student leaders at Cameron Highlands, June 15—17, 1973.

2 For further discussion on this phenomenon see Daoed Joesoef "Perdamaian adalah lanjutan dari peperangan dengan peralatan lain" (Peace is a continuation of war with other means), *Analisa Masalah-Masalah Internasional,* no. 2, February 1973.

the conclusion that what we are facing now is a rapidly growing knowledge and world economy. This world economy is where the action is, and any nation that doesn't expend any effort to get a piece of that action or, in other words, that isolates and contains itself in autarchy, is surely writing a prescription for its own economic decadence.

II. The possible solution

If thus is the problem that we are facing, the solution is not so much to invite MNC's, foreign capital and enterprises as to permit them to enter *with* the necessary relevant preparations on our side so as to make sure that their presence and operations will enable us to get a fair share in the growing international cake. Time is however so short that it is not possible to wait until these preparations have been completed before allowing foreign capital and enterprises to enter. Now invitation is to be issued and preparation made simultaneously. If foreign capital and enterprises are left at present as working to the detriment of the national (economic) interest, this is due to nothing else but *our own fault*: we have not prepared our economy the way we should because we have not understood the problem well enough. Therefore swearing at foreign capital or staging demonstrations in front of foreign companies or embassies does not in any way help to solve the problem. The preparations aimed to benefit to the utmost from the presence of both foreign capital and enterprises must be made in an overall and simultaneous way in various fields and at various stages of the process of production.

At the macro-national level these preparations should consist of the creation of what Dr. Panglaykim calls "Indonesian Incorporation", i.e. a pattern of close cooperation between the government, bureaucrats, technocrats and businessmen so as to facilitate the development of a power entity on a national scale which can serve as a countervailing power against both MNC's and foreign national enterprises[1]. The formation of such a countervailing power should also be done at the same time in the micro-economic

1 J. Panglaykim, "Struktur domestik dalam interdependensi ekonomi dunia" (Domestic business structure in the context of interdependency with the world economy), *Analisa Masalah-Masalah International*, no. 12, Dec. 1973, pp. 37—44.

sphere. This is essential in view of the fact that ours is a society of atomistic business organizations, in which productive activities are undertaken by thousands of small and medium enterprises that are less than well organized and the relations among which, if these occur at all, are personal rather than businesslike in nature. Though these small and medium enterprises fulfill a certain function and play a role in the growth of national business and entrepreneurship, it must be admitted that as a whole they cannot be made to serve as a countervailing power against the giant foreign corporations. Hence large-scale national participation as a means to derive maximum advantage from the presence of foreign capital should be done through "national integrated units" in the industrial, managerial, commercial and financial fields. Apart from functioning as a countervailing power against giant foreign companies, these national integrated units as big business units are also needed to help the small and medium enterprises, especially as far as supply of raw materials and marketing of finished products are concerned.

The large-scale operations carried out by these national integrated units will consequently require large funds. One, two or three development banks assigned to serve the hundreds or even thousands of investment activities are not enough and therefore will not be in a position to cope with the relatively great increase that will occur in the needs of finance. In fact, even when these needs are still relatively small, as is the case at present, the existing banks have proved themselves unable to meet the demand for credits. It is no wonder therefore that these needs are now largely met by the giant foreign companies, namely, through the so-called "company finance", with all the obviously disadvantageous consequences for the constitution of strong national business community and economy. For in that way the Indonesian partners of the giant foreign enterprises would serve as a mere "extension" of the foreign companies, and their position has been reduced to that of "intermediary", precisely like what happened during the Dutch colonial period. Therefore, besides setting up national integrated units, provisions should also be made to create financing facilities in the form of a national financial consortium. This consortium may be a private body or a joint venture between private and government banks, wherein private foreign exchange banks take an active part, and which has affiliation with financial consortia of international standing with a view to attracting funds circulating

in the international money and capital markets. In this way we will make the maximum use of the creditworthiness that our national financial institutions as a whole actually have among international financial circles. Henceforth financial institutions based abroad — like the ones in Hongkong, Singapore, etc. — could be prohibited from channeling funds to Indonesia, if law and order so require, except through the national consortia and merchant banks based in our territory.

The preparations to derive maximum benefit from the activities of foreign business should not be limited to the economic field but must cover the social field as well. Efforts should be made, for instance, to multiply training opportunities for the would-be labour force, especially for the college dropouts, so as to help them to master elementary technical skills and industrial arts. Such training facilities will obviously require enormous funds. As "Educational Foundation" should accordingly be set up whose main function is to find ways to obtain these funds on a regular basis from the large foreign companies operating in Indonesia. Hence it is not a once-for-all contribution but grants that the foreign companies extend to this Foundation and which are deduced from the annual profits of their business operations in the country. That part of profits that is earmarked for this kind of grant could, if necessary, be exempted from company tax. A Foundation that operates this way could accelerate the "spread effects" of the presence of foreign business in the country. The advantages of its presence will thus be enjoyed not only by those working directly for the foreign companies or by the state treasury through the taxes and royalties they pay, but by a far greater number of people in society. Furthermore, with the provision of these training facilities, the principle of social justice, which is one of the aims of our development efforts, will be better assured. Justice will in this context be achieved not through the classical policy toward more equal distribution of income but through increased utilization in the process of development of the sources of energy possessed by virtually every citizen, namely, human labour. Then by raising the technical quality of labour from "unskilled" to at least "fairly skilled" level we will not only help to increase individual earning capacities and by so doing, to give more equal chance in life to the citizens, but also multiply the human capital of this country.

Upon deeper reflection we will find that large-scale training in technical know-how has also great economic significance. One of the fundamental obstacles to the Indonesian development efforts, as a matter of fact, is the shortage of intermediate technical workers, i.e. the technicians who carry out the decisions made by the higher echelon of the hierarchy. However, such middle-level technicians are not produced, in any country whatever, by formal educational institutions. What formal schooling can do at most is to train people to master tools of analysis, either mathematical or verbal. Midlle-level technicians are formed and produced at the centres of productive activities and business. In the developed countries there are plenty of such centres, whether they be factories, ship-building yards, mining and construction companies, insurance firms, banks, or commercial houses. In the developing countries like Indonesia such industrial centres are very scarce whilst the growth of such centres is in turn determined to a great extent by the availability of the middle-level technicians. In order to break this vicious circle which works as a stranglehold on the economy, it is necessary to step up the activities to train people in technical skills and industrial arts and it is to finance these activities that the establishment of an Educational Foundation is considered relevant. In this way we will import *technology itself* into our country and not be content only with importing goods that are products of technology that thrived and was developed in other countries.

Conclusion

It would appear that nobody will contest the saying that no human being is able to predict precisely what is going to happen in the future. Yet, if it is hard to predict the future, it is probably because we are misconstruing it at present. One of the best ways to prepare the days to come is to draw up prospective plans today just as we anticipated the days where we live at present by planning them well yesterday.

Actually we in Indonesia have duly done this kind of methodic preparations about the future through a system of five-year plans. Social restiveness and public furor occurring here and there today prove, however, that we have been misreading and misinterpreting the problems and events that have happened in the past in such

a way that the planning we made yesterday in anticipation of today, too, has been totally erroneous. This kind of error should not be repeated in our present efforts to prepare the sort of future that we desire and to avoid the one that we don't want to have. Into this plan must accordingly be integrated preparations for our active participation in the world economy because this is necessary to save the national economy from decadence. But it should be kept in mind that the world economy does not only constitute an "opportunity", but also, and even more so, a "challenge". This means that participation in it will not automatically bring to us the fair and appropriate advantages that we hope for. To obtain these advantages we have make systematic preparations in many spheres of life through our planning system.

The course suggested above is clearly not the only possible solution. It is only one of the many conceivable alternatives to cope with the problem and challenge being faced. But we can be sure of one thing: the planning that we make today should not be considered as correct merely on account of the inclusion of foreign capital investments in terms of aggregates in the input-output table while at the same time the preparations to avert the negative effects of these foreign enterprises are overlooked. It would be more disastrous if our planning neglected both. Perhaps our planners have to take seriously into account the growing need for "reprivatization" and "modernization" of our industrial and business systems. Reprivatization means a process in which the government, through the five-year development plan, defines social economic goals, but encourages nongovernmental institutions to achieve them. To this end it is necessary that these institutions have clearly defined missions so that they can structure themselves in the appropriate fashion. This structuring will in any case be a very difficult task, since the "knowledge workers" of today — including those middle-level technicians that would later be produced by the training centres mentioned above — cannot simply be inserted into the hierarchical slots of yesterday's organization. They won't tolerate it and need to be motivated in quite other ways, totally different from the traditional ones we are familiar with. Hence the need of "modernization" of our industrial and business systems and practices. To find the best solution to this problem it is necessary to seek the views of sociologists, politicians as well as political scientists, psychologists and businessmen themselves. This

serve to show that the task of national planning should appropriately be a pluri- and inter-disciplinary one and not just a matter to be handled exclusively with the aid of economic discipline. For even though the economic field is given priority in the present development effort, for whatever reason, this does not necessarily mean that development planning is the concern of the economists only. Moreover economics itself is a relatively young scientific discipline. As such it has yet to reach that level of development at which it can fully explain phenomena, not to speak of that level at which it can provide solutions to the problems. And even if a certain problem can, on the basis of certain assumptions, be declared as being an "economic" one, its correct solution does not merely lie in the economic field, for in reality one field of activity or problem is linked to another in a close interrelationship.

Finally it must be stated that no matter how thoroughly we have thought about the necessary preparations for the future, active participation in the growth of the world economy may well cause us to run certain unexpected risks. But far from taking this as an excuse to refrain from participation, we would rather say: if all risks are knowable beforehand, is there still any fun in doing anything in life on earth ?

FOREIGN INVESTMENT AND LABOUR-INTENSIVE INDUSTRIES

THEE Kian-Wie

I

Basically one can distinguish three kinds of foreign private direct investment, namely natural resource-oriented investment, market-oriented investment, and labour-oriented investment. Natural resource-oriented investment is undertaken with a view towards exploiting the natural resources of the host country, while market-oriented investment is carried out primarily with the aim of capturing the domestic market of the host country. On the other hand, labour-oriented investment is mainly motivated by the availability of abundant and cheap labour in the host country. However, the distinction between these three kinds of foreign investment is not watertight, since labour-oriented investment might also be stimulated by the lure of a potentially big market in the host country.

This paper intends to discuss some of the ways in which foreign investment, particularly of the labour-oriented variety, might assist in solving the unemployment problem in Indonesia. To that end, some recent developments in the world economy favorable to the establishment of labour-intensive industries in Indonesia will be reviewed as well as some of the policies Indonesia might adopt in order to lure such industries to Indonesia.

II

The one development favoring a rise in labour-oriented investment in Southeast Asia, including Indonesia, has been the labour shortage

problem which the Japanese economy has been confronted with to an increasing degree since the early sixties. As labour has grown increasingly scarce in the booming Japanese economy, wages of the Japanese workers have steadily risen over the past few years, thus rapidly narrowing the still existing wage differential with the industrialized countries in the West. With no reasonable prospect of the labour shortage problem being alleviated in the near future, it is expcted that by 1980 the Japanese worker will enjoy a 35-hour, five day working week, and wages about four times as high as their present level[1].

Faced with rapidly rising wage levels Japanese industries particularly the labour-intensive industries, are steadily losing their comparative advantage in their own country, and thus have a strong incentive to relocate the sites of production to developing labour-abundant countries where lower wage levels prevail, such as Indonesia. Having accumulated huge foreign exchange reserves since 1968, Japan does not have only the motive but also the capacity to undertake foreign investment on a large scale in developed and developing countries alike.

With an increasingly serious unemployment problem on its hands, Indonesia would do well to take advantage of this situation and attract labour-oriented investment to its shores. By giving priority to labour-intensive industries, a growth pattern could ensue which would be more in line with Indonesia's factor endowments, i.e. labour abundance (notably in Java) and capital scarcity. By providing employment opportunities in these labour-intensive industries, Indonesia might have both higher growth (in GNP) *and* higher employment. Insofar as Indonesia's poverty problem is also to a large extent attributable to unemployment and underemployment, providing employment in labour-intensive lines of production would therefore mean a step in the right direction of a more equal distribution of income. Taiwan's experience shows that with judicious policies a developing country might achieve all the three desirable goals of more output, higher employment, and a more equal distribution of income. Moreover, many of these labour-intensive industries also turn out products geared to the domestic mass market rather than only to the high-income groups. So in this way

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1 Kioyoshi Kojima: "Reorganization of North-South Trade: Japanese Foreign Economic Policy for the 1970s", *Hitotsubashi Journal of Economics,* Vol. 13, No. 2, February 1973, p. 4.

too a growth path would be taken which would really benefit the masses and not only the small privileged high-income groups.

In addition, preference should be given to labour-intensive industries which would have a real or potential comparative advantage in export markets abroad. In that way these industries would not only contribute to raising output and providing employment, but would also through exports be earning valuable foreign exchange. In fact, in addition to the magnitude of output, redistribution, and employment effects, the possibility of earning foreign exchange through exports of its products would have to be one of the prime criteria in assessing whether a specific foreign investment venture would have to be accepted or not. In short, we agree with Kojima that in general foreign investment would have to be *'trade-oriented'* in the sense that the establishment of these foreign ventures would have to stimulate increased trade flows between the investing and host countries in line with the development of new envolving comparative advantages in both the investing as well as host countries[1].

III

As mentioned earlier, Japan has for some time been experiencing a labour shortage problem which she, unlike the Western European countries, is unwilling to solve by importing cheap labour from abroad. In view of this popular resistance against importing foreign labour, the other possible alternative for Japan would be to contract her increasingly less competitive labour-intensive industries and transfer them to neighbouring labour-surplus and low-wage countries in Southeast Asia, such as Indonesia. This Japan has already been doing for some time and will increasingly do so, as is evident from a projection of Japan's overseas investments by the Japan Economic Research Center. For instance, in 1969 Japanese labour- and market-oriented investment overseas amounted to US$ 620 million, while for the year 1980 this amount is expected to rise to US$ 7.148 million[2]. These figures indicate that within a

1 Kiyoshi Kojima, "A Macroeconomic Approach to Foreign Direct Investment", *Hitotsubashi Journal of Economics*, Vol. 14, No. 1, June 1973, pp. 2—8.

2 Kojima, op. ci., p. 3.

period of a little more than one decade, Japanese labour and market-oriented investment overseas would rise by almost 1.000 procent !

While a growing part of Japanese investment abroad is thus motivated by the attraction of low wages in the developing countries of East and Southeast Asia, a similar kind of labour-oriented investment on the scale of the Japanese cannot be expected from the Americans and West Europeans. For one thing, the U.S. generally speaking does not have a labour shortage problem. On the contrary, unemployment in the country is still relatively serious. For that reason, a large-scale transfer of America's labour-intensive industries, which consist largely of declining, less competitive industries, would raise a storm of protest and meet with considerable opposition from the powerful American trade unions.

Although there are a few striking instances of West European labour-oriented investment in Southeast Asia, such as the successful Rollei venture in Singapore, the West Europeans in general do not have the same strong motivation of relocating their labour-intensive industries abroad. As indicated earlier, the rapidly growing economies of Western Europe, such as West Germany, France, and the Low Countries, have tried to overcome their labour shortage problem by importing foreign workers in large numbers from the economically depressed, labour surplus areas of Southern Europe, and Northern Africa.

For the time being, the only substantial labour-oriented investment Indonesia can expect can only come from Japan. So far a large part of this kind of Japanese investment has taken place in the smaller, rapidly growing countries of East and Southeast Asia, such as South Korea, Taiwan, Hongkong, and Singapore. However, as standards of living rapidly rise in these countries, labour becomes increasingly expensive as well as hard to come by. As a result, Indonesia with its large and cheap labour resources would look increasingly attractive to this kind of labour-oriented investment from Japan. Given the right incentives and a substantial improvement in infrastructure as well as in the efficiency of the government apparatus, Indonesia could hardly fail to attract an important part of Japanese labour-oriented foreign investment.

Care should be taken, however, that certain government policies do not promote the adoption of more capital-intensive techniques by the foreign investors. In certain industries more capital-intensive

techniques might, for instance, be adopted if wage costs are raised excessively because of the requirement of paying wages and salaries which considerably exceed worker productivity. More capital-intensive techniques might also be encouraged if the costs of capital equipment are lowered artificially because of special credit arrangements, favorable tariff concessions (on the import of capital equipment), fiscal concessions, and favorable provisions concerning accelerated depreciation of capital epuipment. On the other hand, however, one should also not overestimate the importance of these measures. Although in certain manufacturing industries substitution of labour for capital is quite feasible, in other industries substitutability of these two factors of production is rather limited.

IV

The experience of developing countries, such as Taiwan, South Korea, and Hongkong, has shown that it is possible to develop a strong comparative advantage in labour-intensive industries which combine low wage costs with sophisticated technology and management[1]. These ventures have generally been established through foreign investment, and include industries such as textile and garment manufacturing, shipbuilding, electronics, and machine tool and engineering component production. Foreign investment in these industries has been 'trade-oriented' in the sense that they have been mainly motivated by the desire to establish an export-base, rather than by the desire to capture the domestic market of the host country. Through investment in these labour-intensive industries, a new international division of labour has been envisaged in which the labour-surplus, low-wage developing countries would concentrate on the development of labour-intensive industries, while the labour-scarce, capital-abundant, and technologically advanced countries would concentrate on the development of technology- and knowledge-intensive industries. By exporting the production of these labour-intensive industries to the rich markets of the investing and other advanced countries, these industries could be assured of greater

1 Helen Hughes, "Assessment of Policies towards Direct Foreign Investment in the Asian-Pacific Area", *"Direct Foreign Investment in Asia and the Pacific* (Peter Drysdale, editor), Australian National University Press, 1972, p. 330.

growth possibilities than if they had only relied on the domestic market of the developing country.

As Kojima has correctly pointed out, however, such trade-oriented and labour-oriented investment can only succeed if the developing host country is assured of restriction-free access to the markets of the rich countries, particularly the investing country itself. However, the experience of successful exporting countries, such as Taiwan, South Korea, and Hongkong, has shown that trade liberalization on the part of the rich countries, particularly in regard to the granting of trade preferences for manufactured goods from developing countries still has a long way to go, pious declarations of the rich countries notwithstanding. In order to really assist the developing host countries to develop, the rich countries should not only invest in the developing countries, but, equally important, should also open up their markets to the manufactured products of the developing countries.

Recent events in the U.S. have shown, however, that rapidly rising imports of labour-intensive products, such as textiles, apparel, shoes, etc., in which the developing countries have a strong comparative advantage, are likely to meet with stiff opposition from industries hurt by this foreign competition. Although most of these industries from the standpoint of the national economy are no longer economically efficient, they nevertheless have considerable political clout and can bring much political pressure to bear on the American government to introduce protective measures against foreign imports, as was witnessed by the introduction of the protectionist Burtke-Hartke Bill. To withstand domestic political pressures in favor of protectionist measures against imports of manufactures from developing countries, the rich countries should therefore design comprehensive and effective measures of domestic structural adjustment assistance schemes in order to ease and facilitate the shift of their declining, traditional, mostly labour-intensive industries to new growth industries in which the rich countries have a strong comparative advantage, such as the knowledge- and technology-intensive industries. Only by easing the pains and burdens of adjustment for the management and workers of the declining industries to the new economic conditions would it be politically feasible for the rich countries to liberalize their trade with developing countries.

V.

A widely held view regarding the possibility of choice of techniques in manufacturing industries is that technological coefficients of production are generally fixed, that is to say that in most manufacturing industries capital and labour can only be employed in fixed proportions to each other. This would mean that there is actually little room for substitution of labour for capital and for the adaptation of foreign productive techniques to local factor endowments. If this observation is true, the outlook for Indonesia to induce foreign as well as domestic investors to adopt more labour-intensive techniques in manufacturing industries would seem pretty bleak.

Although it is undoubtedly true that in many modern capital-intensive industries capital and labour can only be employed in relatively rigid proportions, the historical experience of Meiji Japan and the recent experience of such rapidly growing economies as Taiwan and South Korea have shown that the alleged rigidity of technological coefficients of production is not always true. Entrepreneurs in these countries showed themselves to be quite imaginative in introducing innovations which involved adaptations of foreign techniques to local conditions[1]. Most of these were *'capital-stretching innovations'* in which more units of labour were combined with one unit of capital than was customarily the case in the countries in which the technology originated.

In the case of Meiji Japan one example of a successful capital-stretching innovation was an innovation which was introduced into the production process in textile industries. In these industries machinery imported from the U.S. and England was used much more heavily and faster than in the originating countries the introduction of more work shifts per day and the use of more workers per machine. Instead of working the machines during one shift per day, more workers could be employed by the introduction of more work shifts per day. In addition, during one shift more workers were employed by putting more workers at work at each machine which, as a result, could be run at higher speeds[2]. Recent experiences in

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1 Gustav Ranis, "Industrial Sector Labour Absorption"; *Economic Development and Cultural Change*, Vol. 21, No. 3, April 1973, pp. 397—408.

2 Ranis, *op. cit.*, pp. 398—399.

Taiwan and South Korea have indicated that in various industries similar capital-stretching innovations have been successfully introduced, thus enabling these countries to enjoy higher output and employment. Considering these successes there is no reason why manufacturing industries in Indonesia could not also introduce capital-stretching innovations into their production processes, thus playing an important role in helping to alleviate unemployment and underemployment in Indonesia.

Another recent development of significance to developing labour-surplus countries such as Indonesia has been the development of specialized labour-intensive *processes* and *activities* within vertically integrated multinational companies[1]. This development is characterized by the internationalization of production and marketing activities of the large multinational companies in which certain labour-intensive processes in the chain of the whole production process of a certain manufactured product are located in developing labour-surplus countries to take advantage of low wages there. By adopting this kind of internationalization of production processes, the developing labour surplus countries have another channel for exporting their manufactured products to the rich countries, specifically the exports of manufactured *intermediate* goods, such as component parts to be further used in the production of manufactured final products in the rich countries themselves.

From the viewpoint of earning foreign exchange, this kind of farming out of labour-intensive processes and activities to low-wage developing countries looks promising too, since it offers the developing countries another channel to export manufactured products to the rich countries, notably the U.S. Under the provisions of items 806.30 and 807.00 of the U.S. Tariff Schedules, for instance, import duties are levied only on the value added abroad, provided the inputs of the manufacturing process (producing that particular value added) originated in the U.S.[2]. Obviously, these provisions in the U.S. Tariff Schedules have been made with a view to the interests of U.S.-based multinational companies who wanted to move the labour-intensive parts or activities of the production process of their industries to developing countries in order to take advantage

1 G.K. Helleiner, "Manufactured Exports from Less Developed Countries and Multinational Firms", *The Economic Journal*, March 1973, pp. 28—31.

2 Helleiner; *op. cit.*, pp. 29—30.

of low wages there. Nevertheless, these provisions have afforded developing countries another way of getting into the rich U.S. market where other channels are less promising, specifically the export of final manufactured products, the inputs of which do not originate in the U.S. However, the disadvantage for Indonesia of this development of labour-intensive processes within vertically integrated multinational companies would be that it would increasingly tie Indonesia within the international network of multinational companies which could limit her independence of action and therefore ultimately be harmful to her national interest.

VI

In the above pages a few ways have been sketched in which foreign ventures in Indonesia could provide increased employment opportunities. Important though it is that foreign investment should provide ample employment opportunities to Indonesian nationals, increased employment for Indonesians is not the sole criteria by which Indonesia should measure the usefulness of foreign investment. No matter how large the material, technological, and other benefits which foreign investment could provide in the short run, in the end Indonesia, like other developing countries accepting foreign investment as an engine of growth, cannot avoid making the difficult decision assessing and striking a proper balance between tangible economic benefits on the one hand and the maintenance of economic and political independence on the other hand.

A WELL-BALANCED GROWTH COUPLED WITH JUSTICE: AN ECONOMIC OR A POLITICAL ISSUE ?*

M. Hadi SOESASTRO

New thoughts and ideas, perhaps even a certain wisdom, result from the questioning of issues previously taken for granted. In this line of thought, reflexion on development should never end, since development is the manifestation of man's will to decide his direction in evolution, and this may at times entail no more than his survival. At any given time man should be optimistic about the outcome of his decisions. However, he should never forget that decisions are made only to be corrected in the course of time, as times change.

Reflecting on Indonesian development today one could see that the history of this young nation reveals a series of decisions, each of which has both its positive as well as its negative aspects but all of them possess a common characteristic, namely a gradual movement towards the definition of a third model of development, whatever the point of departure may be.

This article has no intention to discuss the sense and nonsense of economic growth for Indonesia. It is assumed as acceptable, at least politically, that a general development policy should be aimed at achieving a substantial economic growth rate as a precondition for the successful development of the country and society. Such general statements are indeed always debatable, but a discussion of such broad areas is always subject to the risk of leading nowhere because they are primarily problems of decision making at the political level. It is worth noting, however, that public opinion in

* This is an abridged version of a paper presented at a Seminar on "Planning and Development in Indonesia", organized by the KMKI-Europe and the Konrad Adenauer Stiftung, Trier (Federal Republic of Germany), September 1973.

Indonesia is increasingly concerned with the fact that the mechanism of economic growth does not by its very nature automatically serve to satisfy the sense of justice as understood in the society, and it is often argued that such a mechanism may in fact even work entirely against the principle of justice. Hence, in an attempt to solve the dilemmas of development, the policy makers have decided to define certain restrictions and limitations in the process of growth. According to them it should result in a pattern of a well-balanced growth coupled with justice.

This article will examine the phrase "well-balanced growth coupled with justice" the meaning of which rests largely on decisions taken at the political level. It is therefore obvious that at first sight a discussion on such issues appears to be nonsense. But is it really? One might find the answer by examining further the consequences of this phrase in the planning process. Generally speaking, it is the plan that will determine which of the problems are to be faced in implementing a development plan. A further basic hypothesis is that its planning is nothing if not the systematization of principles and targets, derived either from perceptions or calculations, then the philosophy of planning seems more practical than it at first appears: it requires that a clear distinction be made between strands of the web of problems which should be clarified theoretically and those which must be decided politically.

The desire to find a pattern of growth in accord with the demands of justice and capable of being worked out in a more balanced way is discernible in the Broad Lines of the State Policy (1973). There it is stated that "......... development, aside from increasing the national income, shall, at the same time guarantee an equal distribution of income among the people, in accordance with the sense of justice and in the framework of realizing social justice, thus on the one hand development is not only aimed at the increase of production, but it shall also prevent the widening of the gap which separates the rich from the poor by inculcating the principle of a modest life; in order to attain not only a prosperous society but also the realization of a just society. On the other hand, there shall be wider participation of society in development, in bearing the burden of development, as well as in enjoying the fruits of development". Furthermore it is stated "......... development shall not mean the pursuit of material progress

or inner satisfaction alone but a well proportioned, balanced and harmonious combination of the two.........".

It is certainly far from easy to work with the two notions "justice" and "balance" unless they are interpreted and defined with at least sufficient clarity to enable the planners to proceed with them in drafting plans. Given the lack of techniques available to convert such terms as "justice" and "balance" into derivatives operational for overall planning, theoretical considerations alone often prove inadequate, and must therefore be decided politically. Planners are not responsible for making the political decisions required in the process of planning; however, they certainly are responsible — particularly in the case of Indonesia, in face of a group of politicians whose lack of expertise is detrimental to decision making — for providing the instruments required for proper decision making. This should be manifested in the provision of a series of alternative development plans, with one aim, among others, to end stagnation in political life. It is a fact that the group of politicians in Indonesia is not accustomed to a *lingua franca* which enables them to make decisions based on more than generalities. The absence of a *lingua franca* as has been evidenced in the past 25 years of political life in Indonesia merely results in confusion and unnecessary controversies. This should actually have been overcome in the discussions of such sophisticated areas as the process of development. However, the hard fact remains that with the rise of the technocrats they can never supplant politicians in the latter's particular field.

II

Long term planning is the only framework capable of encompassing the dimension of growth with all its accompanying aspects. This explains why any development plan based on the dynamics of growth — including a plan with justice and balanced growth as its guideline — could never be expressed, let alone be explained, in terms of static analysis. Should one discuss the issue of a well-balanced growth coupled with justice in a static analysis, it is logical that *at any given time* one would expect a growth which would fulfill the demands for justice and which would simultaneously manage a balance between fulfillment of material and non-material

needs. Although such an expectation is indeed desirable, it is however, unrealistic. One can observe a strong tendency in Indonesian political life to approach and judge the process of development by applying a static evaluation with the hour of judgement occurring annually at the time of the passing of the State Budget by the parliament. Here, for example, is balance viewed as the comparison between the budget allocation for economic development on the one hand and for social development on the other. A more extreme case occurs when the hour of judgement arises several times within the period of a year depending on the prevailing situation; such is the case with judgements on the process of growth with justice: a notion too seriously believed in by the public without giving due consideration to the continuing and gradual nature of the process.

In a way, these expectations and reactions are quite understandable, and one can argue, quite rightly, that the behaviour of the public is conditioned by the system as a whole, namely the operation of a planned society without the existence of a perspective long term development plan. The notion of a well-balanced growth coupled with justice is indeed the ideal, it should, however, be transferred to the operational level where operational means define the type of equitable and balanced growth which can be achieved within a certain time span. Besides that, it is of great importance — and perhaps this is the very essence of planning — to clarify how such growth can be attained; at whose expense and by what means, namely it must enumerate the economic and social sectors which have to bear the burden of development. In the absence of such clarification the phrase "well-balanced growth coupled with justice" becomes illusory. It may even emerge as no more than another political slogan serving ulterior political interests and purposes.

The Broad Lines of the State Policy is meant to give a framework for drafting a long term plan. Methodologically speaking, the basic concept of long term planning is none other than "the present viewed in retrospect, and the most important consequence of developing alternative expectations about the distant future is a better perspective on current trends and tendencies"[1]. The general trend for most of the developing countries is that of a continual population growth, while economic growth merely limps behind it.

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[1] Anthony J. Wiener, "The Future of Economic Activity, in *The Annals of The American Academy of Political and Social Science*, Vol. 408, July 1973, p. 48.

The dilemma for plannng is due to the fact that everything is becoming a priority, while shortages in capital and skill continuously postpone the time for a take-off in economic development[1]. At the same time there exists a new and phenomenal tendency of an increased consciousness for universal human values and aspirations which is not directly related to the living reality but could actually have been stimulated by alienation from the reality of the society.

III

"Justice" and "balance" are indeed philosophical values. However, since they are not just perceptions but are directly related to the feelings of human beings, they are by nature practical values as well. Being philosophical values they lie beyond the operations of planning. However, they will nevertheless be considered in deciding the general direction of the development plan. Being practical values, the notion of "justice" and "balance" are actually criteria of a relative nature. They are moving between the needs felt or defined by the society on the one hand and the fulfillment of needs resulting from development on the other hand. Thus, it is a permanent confrontation between two variables, each of which demands accommodation. Seen from this viewpoint the supply and demand model appears relevant for further analysis.

Following the evolution of the supply and demand model, one can see that at the very beginning of its validity in modern industrial societies, the rise of an independent variable, namely the demand for goods, determines — according to this logic — the birth and growth of the production sectors. The logic of this model is a continuous quest for equilibrium. In the course of time, however, and by using its own logic, the production sector went beyond its previous function as a dependent variable, expanding and transforming itself into an independent variable and hence determining the logic of consumption. To achieve a state of equilibrium in this changed role, the producton sector use modern information techniques to penetrate the field of social psychology, thereby stimulating the consumer to buy more products. This phenomenon becomes one of

[1] Ali Moertopo, "The Future of Indonesia", in *The World of Strategy and The Foreign Policy of Nations* (Jakarta: Centre for Strategic and International Studies, 1973).

the characteristics of the affluent industrial societies and at present has become the target of sharp criticism.

The primordial independent variable, namely the demand of the consumer for goods, is in the Indonesian case, and perhaps in most of the developing societies, predominantly determined by external influences. Progress in communication and information techniques result in a desire by the people to emulate the pattern and standard of living of the more advanced countries. It should be clear that this rising demand is not equated to either the existing financial-economic capacity nor to the social condition of the country. This explains why the supply, and demand model applied to current Indonesian conditions results in distortions. The nature of the problem is a *game* situation, the reality is a *non-game* situation. However, since the logic of the model persists, the distortion automatically creates supplementary manifestations on the part of the consumer: expressed in terms of a demand for opportunities. This phenomenon is the most important political aspect of development. It is an issue which enters into the realm of politics. Hence, if the model is to be applied to the Indonesian situation it should operate with parameters of differing characteristics: *quality and opportunity* replace price and quantity.

If this analysis is correct, then one ought to examine further the functioning mechanism in such a model. It is not too far fetched to state that in Indonesia the government is presumed to be and is expected to play the role of the producer and supplier in satisfying all the people's needs. This means that the government has to provide goods and at the same time opportunities to enable the population to consume such goods which are not only of a material nature but non-material as well. It is argued that this political culture is a sequel to the traditional pattern and way of life in Indonesian society where the king or ruler was fully responsible for the fulfillment of the people's needs. There are schools of thought that are of the opinion that proper planning should try to depart from the living reality and aspirations in the society. However, once the functioning of the mechanism is examined, the reality shows a lack of any sense of real participation on the part of the people, whereas opportunity is actually a function of participation. It is precisely the sense of participation which determines the social mobility of the society, and which in turn would stimulate the creation of social institutions required by the mechanism as such, namely to satisfy

the demand for opportunities. Opportunity is indeed not a gift, it has meaningful implications only if it is excersized in an organized way.

In the existing political culture the problem of participation is not a matter of semantics, but rather a matter of standard. The notion of participation is not the same as the sharing of responsibility but is seen rather as being present within the machinery of authority. Beyond this machinery there is nothing called participation. This is the reason why private activities and enterprises were never very attractive and carried a somewhat negative connotation. On the other hand, although since the birth of the nation, political institutions have been established, there has never been real participation of the masses in politics. The power and impotence of the political reality lies in one fact, namely that the people's needs are defined by only a small group of the urban population. Political struggle neither serves the people, nor is it a class struggle. It is more or less a chronic struggle within the elites, all of them having but a single aim: to gain control of the machinery of authority. One, however, should not ignore the impact of this limited political struggle, for it contributes to the ever rising expectations of the people.

IV

Given the existence of distortion within the supply and demand model, it is obvious that the equating of supply and demand is one of the big issues of development. Logically, it is exactly through development that the demands of the people is to be fulfilled. One could, however, never expect that all aspects of development could proceed in a synchronized manner. This means that there are always overshadowing problems which often turn out to be precisely those to be solved first.

It should have been clear from the outset that the restoration of the mechanism for the functioning of the supply and demand model could not be approached in terms of techniques, and that given its nature, the solution is more likely to be found through the utilization of strategies. The model is functioning if one of the two variables is dependent on the other, or if they are interdependent. Such could be seen in the behaviour of the parameters. They operate

in a system if it is valid to state that "if you want to have better quality you must pay this with less opportunity and *vice versa*". Thus, the general strategy is to make the *non-game* situation a *game* situation. Since the problem is basically none other than that of an uncontrolled rising demand of the people, namely the demand for maximum of quality and simultaneously for maximum of opportunity, its first solution lies in the choice of using information strategies which could result in a more modest demand. One extreme example of such a strategy is the use of repressive practices supported by an ideology or by military force. These practices are indeed very effective. Indonesia, however, has decided to find a more humane strategy. Since the birth of the *New Order* the belief in the power of planning, hence in entering a technocratic age, is aimed at over-passing the ideological imperative in achieving a break-through, or in producing a qualitative structural change, namely the passage from stagnation to intensive development. There is, however, always a great danger and risk in such an undertaking. A transition period, that is, where the system is no more than series of atomistic political decisions, could only survive within the framework of a perspective long term development plan. Preoccupations with the phrase "well-balanced growth coupled with justice" are misleading if there still exist inadequate adjustment mechanisms. It is the distortions within the supply and demand model which have to be solved first, since any development policies ignoring this fact would only result in greater distortions. The really important objective of development efforts is to get people well-off. Ultimately, if a proper mechanism is at work, any development policies will gradually seek for more justice and equality. There still are some reasons to hope that as the process of industrialization approaches its completion, income distribution will become more equalized. There is also another view, the *neo-Malthusian*, which believes that a transition to economic equality and social justice can be made at a very low general standard of living. The choice is a problem of decision at the political level.

V

It has sofar been assumed that we are facing an uncontrolled rising demand. On the other hand, the supplier — that is the

government, mainly — is facing its own problem. Taking into account the currently excessive number of civil servants still being ineffectively, and less productively employed, the expansion of the government apparatus to meet the demand of the people appears out of the question. Moreover, it has been acknowledged that the state's expenditure in this sector is becoming an increasing burden.

Departing from the traditional maxim of the government being the sole "producer", another alternative would be met, namely that of the private activities and enterprises in the society taking over part of the government's role, thereby not only lessening the government's burden but moreover creating a supplementary mechanism for the proper functioning of the supply and demand model. With the government gradually relinquishing its role as a producer it would mainly function as a body which controls and regulates the enlargement of society's opportunities to participate in the process of development,, either through economic or social as well as through political institutions. Negatively speaking the government is interfering, positively interpreted it is giving directions to public activities. This issue is sensitive in developing countries. The other strategic point would then be that of strengthening the ability of the society as a whole to provide any kind of commodity or service the people want and need.

VI

Since the *quality* parameter always tends to work against the *opportunity* parameter, the political decision should be made by giving preference to one or the other. Should the decision be a rational one, planners could calculate an *optimum* solution. The conflict between quality and opportunity is seen as a match between the cost of living and the standard of living.

Indonesia's development will always have to come to face with the rapid increase of population. This means also increasing food supplies, expansion of educational facilities, creation of more job opportunities etc. It is acknowledged that in the Indonesian economy rice plays a decisive role. An increase in the price of rice always has a direct effect on the cost of living in general. This was evident, for example, during the 1972/73 fiscal year when the rate of inflation rose to 20.8% as a consequence of a sudden increase in

the price of rice at the end of 1972. This increase in the cost of living is significant if compared to the rate of inflation at 0.9% in the preceding fiscal year, and this would also mean a decrease in opportunities. There is also a tendency for prices of food to increase continuously as a consequence of various global technical and ecological problems. On the other hand, the Indonesian open economy is susceptible to external inflationary influences as was apparent during the recent international monetary crisis. This means that inflation in Indonesia in part results from imported inflation. The general policy should therefore be oriented towards keeping the cost of living at a reasonable level — a policy of prime importance in such a period of transition — which at the same time would eliminate sources of domestic turmoil. In carrying out this policy it would seem desirable to examine further the possibility of maintaining the price of rice at a reasonable level, if necessary by making sacrifices in other sectors.

One such alternative is through certain *intersectoral arrangements* in which the most lucrative sectors should share the burden of developing the other vital sectors which are still unable to attain a self-generating growth. Such an attempt does not aim at splitting up development planning into independent intersectoral units but is rather intended to provide clarity about the burden of each sector. A division of development planning into intersectoral units, each with a particular function, seems to be much better than the current sectorally planned development. For the next 10 years, that is the period for achieving a break-through, it should be feasible to arrange such intersectoral operations: the mining sector, forestry and tourism could, for example, be made responsible for financing the development of agriculture, education and public health; private national and foreign enterprises for the promotion of trade, the development of the industrial sector, and for education and training; and foreign aid for infrastructure. Such an arrangement is again a political decision. If such a formula is accepted, then planners could start drafting a proposal which could regulate the relationship and the mechanism among those sectors mentioned before.

VII

The rising demands of the people as observed in the society is to a large extent a quest for material progress and welfare,

partly because of the rising expectations stimulated by an economic-heavy development plan, and partly because progress in communication and information techniques accelerate an *internationalization of consumption*. On the other hand, it is at the first instance politics which will decide whether Indonesia will make use of the internationalization of production — introduced by the most controversial enterprise of today: multinational corporations — to meet the demands of the people.

The current scene, however, will show an increasing tendency of an *internationalization of culture* as well. It is expected to result in cultural shocks, and not least in a confrontation with the prevailing political culture. And this political phenomenon will determine the outcome of any development plan.

DATA FLOW AND STATISTICAL ORGANIZATION IN INDONESIA

NUGROHO

A main source of information of a country is its Central Bureau of Statistics (CBS). In this connection, the role of the CBS within the statistical organization of Indonesia is worth describing.

Short history

Actual statistical activities started in 1850 when the Dutch Governor General of the Netherlands East Indies Government set up a statistical unit to collect and compile administrative statistics. This information was incorporated in a statistical yearbook as an annex to the Governor General's Annual Report ("Jaar Verslag", later called "Indisch Verslag") to the Queen. In 1918 this statistical unit became the Statistical Division of the Agricultural Department in Bogor ("Departement van Landbouw" in Buitenzorg). As is indicated by its status, the main activities of the Statistical Division at that time were more concerned with agricultural commodities, in particular the so-called commercial agricultural crops such as: rubber, sugar, coffee, tea, palm-oil and kernels, tobacco, cinchona, cocoa, copra, pepper, nutmeg, cassava, maize, nuts, etc.

Realizing that it was not only crop and production data that were important, but also statistics on exports, prices, and receipt of foreign currencies, in 1925, the Government shifted the CBS from the Agricultural Department to the Department of Economic Affairs ("Departement van Economische Zaken" in Batavia), Jakarta. This was the situation until 1957, when Prime Minister Juanda stated that "the CBS does not only have to do with economic data only,

but also with social indicators as well, such as population, labour, education, health, law enforcements, etc.". He took six basic decisions, in order that the CBS function properly as the barometer of the country. These decisions were:

a) The CBS must not belong to any ministry or department: from that year on CBS belongs to the Cabinet of the Prime Minister

b) The Statistical Act of 1934 must be reviewed. The new regulation passed Parliament in 1961, and is called Statistical Law, No. 7, 1961

c) The CBS must have its branch offices throughout the country. It is impossible to undertake the huge national task by having only one office in the capital. Since 1963 the CBS has had a branch office in almost every subdistrict throughout the whole country.

d) An inventory of all basic data must be compiled. For this purpose, during 1961 — 1964, three important censuses took place: the Population-Census (1961), the Agricultural-Census (1963), and the Industrial-Census (1964)

e) The CBS must organize a statistical training centre to develop skilled labour. To achieve this the Academy of Statistics was established in 1958 thereby providing an opportunity for various statistical training, not only for CBS personnel but also for other government agencies

f) Collaboration with the outside world must be intensified. A United Nations Special Fund Statistical Research and Development Project (UN SF SRDC) was set up (1962 — 1967), with the main goal of improving the statistical data of the country.

These rapid developments, however, came to an almost complete halt during 1964 — 1965, due to both political aspirations (Indonesia's withdrawal from UNO, etc.) and the general antipathy of the incumbent administration to statistics.

The new government under President Soeharto transferred the CBS to the President's Office in 1966. The present status of the CBS is that of an interdepartmental body operating under the State Secretariat for Budgetary Purposes. It cooperates closely with the National Development Planning Agency (the BAPPENAS) and other government departments in its statistical work. Since many government departments have their own specialized statistical

sections, an important responsibility and role of the CBS is to coordinate and assist these various government statistical activities. Through the Statistical Law 1961, the government, indeed, confirmed the primacy of the CBS in the organization and coordination of statistical services throughout the country. During the past few years the CBS has cooperated in efforts to reduce existing duplication, fill some of the most apparent gaps, and improve the quality of statistical output. It is currently in the process of improving its capabilities to serve all government agencies involved in economic and social policy making and planning.

Present organization

The head-office is located in Jakarta, and is staffed by some 1.200 personnel of whom only 22 are university graduates while a further 184 are graduates from the Statistical Education and Training Centre of the CBS. The head-office consists of 95 sections organized into 30 divisions and 6 bureaus. In addition, the field staff of CBS is about 3,500; some of whom are paid by the Department of Interior and the regional governments. Branch offices are located in provincial and regency capitals, and CBS staff are also located in the subdistricts.

The CBS is headed by a Director General and a Deputy Director General. It is organized into three subject-matter Bureaus (Bureau I — Research and Analysis; Bureau II — Current Statistics; Bureau III — Census) plus a Secretariat, a Data Processing Centre and a Statistical Training & Educational Centre (see Organizational Chart):

Bureau - I (Research & Analysis) with 4 divisions:

1. National Income — 5 sub-divisions: (i) Agricultural Sector, (ii) Industrial Sector, (iii) Trade, Transport & Communication, (iv) Banking, Insurance & Public Finance, (v) Regional Income
2. Statistical Reports & Analysis Division — 3 sub-divisions: (i) Analysis, (ii) Indicators, (iii) Econometrics
3. Statistics Development Division — 3 sub-divisions: (i) Survey Analysis, (ii) Survey Planning, (iii) Editing, Coding, Checking
4. Special Analysis Division

Bureau - II (Current Statistics) with 6 divisions:

1. Agricultural Statistics Division — 4 sub-divisions: (i) Food, (ii) Fisheries & Animal Husbandry, (iii) Production Index, (iv) Commercial Crops
2. Industrial Statistics Division — 6 sub-divisions: (i) Large & Medium Manufacturing Industries, (ii) Small Scale Industry, (iii) Construction, (iv) Production Index, (v) Mining, (vi) Electricity & Gas
3. Trade, Transport & Communication Division — 7 sub-divisions: (i) Imports, (ii) Exports, (iii) Inter-insular Trade, (iv) Transport, (v) Tourism & Communications, (vi) Domestic Trade, (vii) Documents
4. Social Statistics Division — 3 sub-divisions: (i) Education, (ii) Judicial, (iii) Cultural Statistics
5. Finance & Price Statistics Division — 6 sub-divisions: (i) Public Finance, (ii) Money & Banking, (iii) Wholesale & Retail Prices, (iv) Producer's Prices, (v) Consumer Price Index, (vi) General Indices
6. Population & Labour Statistics Division — 5 sub-divisions: (i) Demography, (ii) Labour, (iii) Living Conditions of Labour, (iv) Wages, (v) Government Employees

Bureau - III (Censuses) with 4 divisions:

1. Planning Division — 3 sub-divisions: (i) Basic Planning, (ii) Operational Planning, (iii) Analysis & Evaluation
2. Field Operation Division — 3 sub-divisions: (i) administration, (ii) Reporting, (iii) Control
3. Analysis & Presentation Division — 3 sub-divisions: (i) Review, (ii) Processing, (iii) Presentation
4. Documentation Division — 2 sub-divisions: (i) Documents Inflow, (ii) Cartography & Directory

Secretariat with 6 divisions:

1. Regional-Office-Affairs Division
2. Finance-Division — 4 sub-divisions: (i) Treasury, (ii) Control of Regional Offices, (iii) Accounting, (iv) Payrolls
3. Personnel Division — 6 sub-divisions: (i) Promotion, (ii) Social Security, (iii) Personnel Records, (iv) Regional Personnel, (v) Disciplinary Unit, (vi) General Administrative Unit
4. Internal-Office-Affairs Division — 5 sub-divisions: (i) Office Service & Transport for Employees, (ii) Inventory Unit, (iii) Typing & Expedition, (iv) Archives, (v) Printing
5. Consultation & Information Division — 2 sub-divisions: (i) Public relations, (ii) Press release
6. Annual Statistics & Publications Division — 3 sub-divisions: (i) Publications & Circulation, (ii) Sales, (iii) Yearbook

Statistical Training & Education Centre, with 4 divisions:

1. Education & Training through Foreign Aid Division
2. Faculty Division — 3 sub-divisions: (i) Education, (ii) Laboratory & Practices, (iii) Students' Affairs
3. Medium Term Statistical Course Division — 3 sub-divisions: (i) Short Term Courses for Field-Officers, (ii) Medium Term Courses of 6 months, (iii) Correspondence Courses
4. Library

Mechanical Data Processing Centre with 6 divisions:

1. Secretariat — 3 sub-divisions: (i) Equipment & Maintenance, (ii) Training, (iii) Internal Administration
2. System Analyst Division (Senior System Analysts and System Analysts)
3. Programming Division (Senior Programme, Programme-I, Programme-II, Programme Trainees)
4. Editing & Coding (3 sub-divisions)

5. Data preparation (one sub-division for 90 column-cards, one for 80 column)

6. Computers Operational Division (one sub-division for serving the ICL-1902A, another one for UNIVAC 1004 & 1050)

Every branch office in the provincial and regency capital is divided into technical and administrative divisions each headed by a division chief.

Main activities

Copies of the Government's Instructions and the Presidential Decrees describing the duties of every sub-division as well as a list of the CBS publications are available at the Secretariat. They indicate the following main sources of data:

1. Population and Labour

   There are three main sources of demographic statistics in Indonesia:

   a) Censuses

      According to the Census-Law 1960, the CBS is to undertake a population census every ten years. Only two popcensuses were taken since the end of the Second World War, i.e. one in 1961 and another one in 1971. The results of both censuses have been issued in a series of some fifty tables for each province, covering regional distribution, detailed sex-age composition, marital status, place of birth, type of economic activity, education, literacy, number of blocks, number of households, housing conditions, data on use of housing, labour force, school population, etc.

   b) Surveys

      Before 1970 several surveys were conducted by the various Departments, a.o.:

      (i) demographic surveys (by the CBS) covering Java & Madura and the capitals of Outer Island provinces.

The aims of the surveys were primarily providing data for estimating rates of births, deaths, natural increases, and also to gain some idea of internal migration.

(ii) national sample surveys (by the CBS), which are multipurpose in nature. The general purpose is to gain statistical information on social and economic conditions necessary for development and planning, both as a cross-section picture of socio-economic characteristics of the population and also to describe changes in these characteristics especially when combined with corresponding data from other sources at different times.

(iii) labour force sample surveys (by the Department of Manpower) to obtain information needed for labour force analysis. The most elaborate of these surveys was the LFSS of Java & Madura (1958), the most recent was held in South Sumatra (1959).

However, all of these surveys have ceased dua to a combination of financial and other factors.

c) Registration

Through registration the Department of Health collected (during 1957 — 1964) statistics of births and deaths from municipalities and regencies in Java and Madura and some areas of the Outer Islands. Due to financial limitations and declining response this was discontinued in 1965. The government is now introducing a sample registration system. A working team consisting of the CBS, the Department of Interior, Department of Health, The Indonesian Institute of Sciences (LIPI), Family Planning Board. Demographic Institute, etc. was set up to carry out this project.

Within the framework of preparations for the second Five-Year Development Plan (1974 — 1979) all data on Labour and Employment were brought together into three large volumes (covering more than 1500 pages) under the title of *Data on Manpower in Indonesia, 1956 — 1971.* Apart from the CBS, analysis of demographic data is also undertaken by other

institutions, such as the Institute of Demography, University of Indonesia and the Indonesian Institute of Sciences.

2. Social statistics

a) Educational statistics are compiled mainly by the Department of Education and Culture, which has for some years enjoyed technical assistance from the UNESCO. The main tables published concern number of schools, teachers, students, by type of education, number of graduates by type of school, number of faculties & number of students in universities and institutes by field of study, number of public libraries, etc.

b) Statistics on religion. Two principal bodies are involved in the collection of data on religious affairs, namely the Department of Religious Affairs and the CBS. The data collected by both bodies are very simple (number of those who profess a religion; number of places of worship: number of hajis i.e. those who have made a pilgrimage to Mecca, number of marriages, divorces and reconciliations among Moslems).

c) Cultural statistics. Comprises data on films (imported and domestically produced by origin, by kind of stories, by size/length) on news papers and other publications, amusement centres, boyscout-movements, museums, political parties, sport-activities, etc.

d) Health statistics. These are exclusively in the hands of the Department of Health, however, there is good collaboration with the CBS, particularly in the processing of data and in training of personnel. The most important data available is on health facilities, health officials, data on family planning, epidemic diseases, morbidity & morality, pharmaceutical industries and pharmaceutical wholesalers, number of hospitals, dispensaries.

e) Statistics on law enforcement is largely collected by:

(i) the police force (strength of the police force; juvenile delinquency; crime and transgressions).

(ii) the Department of Justice (number of persons convicted of offences; number of persons prosecuted).

3. Agricultural statistics cover both agriculture proper and forestry, fisheries and livestock.

   a) Until very recently the responsibility for reporting crop area statistics was with the Agricultural Extension Service (AES) of the Department of Agriculture. Reporting is complicated by both the widespread cultivation of mixed crops, and by the need for monthly reporting, since both planting and harvesting go on continually all the year round. As regards crop production statistics, the AES was responsible for data from outside Java & Madura, while CBS provided data for Java & Madura. Since 1973 there have been efforts to centralize the responsibility of data in the CBS.

   b) Statistical data on forestry is regularly published by the Directorate General of Forestry, covering the area under forests, production of timber, firewood and charcoal, sales and royalties of forest products, exports of principal forest products, and labour in the forestry industry. The production data relates only to recorded production.

   c) Data on the number of cattle, buffaloes, horses, pigs, goats and sheep is collected by the Veterinary Service of the Department of Agriculture. This body also compiles data on the number of livestock slaughtered, based on information, received from the slaughter houses and licenses issued for local slaughter.

   During the last quarter of 1973, the second Agricultural Census was taken (the first one took place in 1963). Advanced tables will be published at the end of the first quarter of 1974.

   d) Data on sea fisheries is collected by the local officers of the Directorate of Sea Fisheries. In Java and Madura statistics of quantity and value of fish auctioned are taken as referring to catch. Outside Java-Madura where there are no auctions, the officer estimates the catch on the basis of fishing equipment used. Data on inland fisheries are collected by the regional branch offices of the Directorate of Inland Fisheries. Estimates are built up on the basis of data provided by regional wholesalers seeking permits for

transportation and local information collected from the owners of salt water ponds, fresh water ponds, etc. With the assistance of a FAO expert, a fishery-census will be taken in early 1974 aimed at obtaining more detailed data on equipment, production, marketing, earnings of the fishermen, etc.

e) An index-section in the CBS contains indexes of agricultural production.

4. Industrial statistics comprise manufacturing, electricity, gas & steam and mining. There are three main sources of industrial statistics in Indonesia:

a) Censuses
The first of these took place in 1964, consisting of two enquiries: (i) a census of large and medium manufacturing establishment and (ii) a sample survey of small scale manufacturing activities. The second one will be taken around August-September 1974 with emphasis on obtaining more elaborate data for the small scale manufacturing industries. This stress is due to two factors:

(i) data on large and medium scale industries is being recorded through surveys and registration.

(ii) for the other components of the industrial statistics (such as electricity, gas & steam and mining) adequate information is available, since the number of units is very limited.

b) Surveys
For the large scale industries there are not only regular annual surveys, but also regular quarterly surveys for selected industries and with shorter questionnaires (limited to three main questions: labour, production and wage). For the medium scale there are regular annual surveys.

c) Registration
Once every year, registration of large and medium industries takes place to up date the *Directory of Manufacturing Industries.*

5. Trade, transport, communication

The CBS is responsible for the publication of international trade statistics. The raw data is based on the import and export documents received from the various seaports and airports, and also from the port offices. The commodity classification has recently been shifted to the revised SITC. For tax-purposes, the Directorate General of Customs and Excise shifted their commodity classification to the BTN (Brussels Trade Nomenclature). The Central Bank (= Bank Indonesia) also compiles certain statistics on the value of imports and exports based on foreign exchange documents. By way of checks and for internal use the Department of Trade also collect trade statistics data from its branch-offices throughout the country.

Statistics relating to the various forms of land, water and air transportation are collected and compiled by the transport statistics-section of CBS. Copies of reports required for regular publication are supplied by other departments or agencies of government. Since railways are state owned and air carriers are limited in number, railroad- and air-transport statistics are accurate. However, the road- and water-transport statistics, leave very much to be desired.

CBS also compiles, as secondary statistics data on post, telephones, telegraphs, etc. The communication statistics-section of CBS is in close collaboration with the relevant authorities. As shown in the organizational chart, the Trade, Transport and Communication Division is also responsible for statistics on hotels & tourism (tourist traffic, based on an analysis of visas and counts made by customs and immigration officers).

6. Money and Banking, Wage & Prices

The main sources of data on money and banking are:

(i) the Department of Finance (public finance: government receipt & expenditure, savings).

(ii) the Central Bank (Bank Indonesia) which publishes on a regular basis (annual and quarterly) monetary statistical data as well as economic analysis (money supply), balance of payments, etc).

(iii) other financial institutions, e.g. the Bank Rakyat Indonesia (People's Bank of Indonesia, concerning credits granted by rural and village banks, conditions of village paddy-banks, etc.), the Government's Pawnshop Service, the primary cooperatives, etc.

The sources of data on prices are considerable:

(i) the Prices and Financial Statistics Division, CBS collects data on consumer prices (from provincial and regency capitals), producer prices (of selected commodities), wholesale prices (of some 40 commodities throughout the country), retail prices (of more than 300 commodities (domestic as well as imported goods). This division also calculates the price-indices of 11 essential commodities at every weekend.

(ii) other Departments, such as the Department of Interior, Department of Trade, Department of Agriculture, the Logistic Bureau also collects data on prices (rural, trade, agricultural products, essential commodities, respectively) without sufficient coordination. Data on wages are gathered by the CBS (limited to wages of estate workers and salaries of government officials) and by the Department of Manpower. Through the NSS (National Sample Surveys) the CBS also surveys wages in rural areas. Some private companies also collect data on wages, but this is restricted to internal use only.

7. National Income

Efforts to build up national income estimates were made by Dr. S.D. Neumark (1952), Drs. Muljatno Sindudharmoko (1956), Dr. Baranski (1958). The Statistical Law, 1960, stated (Article II, point 2) that it is the responsibility of the CBS to estimate the country's national income. Successively Mr. K.N.C. Pillai (National Income Adviser from UNSF - SRDC, 1963—'65) and Mr. C. Ross (UNDP, 1968—'69) rendered services to the CBS in building up a useful set of national accounts for Indonesia.

The results presented so far are confined to estimates of national income by industrial origin (at current and at constant prices) and extrapolations of national income at constant prices. The most recent series is the *National Income Estimates of Indonesia 1958—'72.* The most serious problem faced in attempting to formulate good estimates is not so much a lack of knowledge or technical skills on the part of the personnel in charge of the national accounts, as the absence of an appropriate statistical base.

Recent Development

The statistical situation is still far from satisfactory:

(i) there is as yet no overall statistical policy in the country.

(ii) the productivity of the statistical system is very low due largely to a lack of adequate organization and facilities.

Realizing this, with the aid of the World Bank and the UNDP, the Government has reviewed means to improve its national statistical system and strengthen the CBS. The Statistical Development Project (SDP) which evolved from these deliberations includes the provision of assistance to jointly to develop and implement:

(i) the new statistical work programme of the CBS which concentrates upon providing more reliabe and timely data in important economic and social sectors as a basis for current decision-making and for long-term planning, and

(ii) a new programme for advising and training CBS's staff on statistical methods management and organization. A team consisting of advisers (of which four have already arrived) will render their technical assistance to the CBS.

The team will comprise:

(i) a Project-Manager who is to submit to the UN and the IBRD reports on the progress and problems of the project, to administer project funds and to act as a channel of communication between CBS and UN in various matters (purchases of equipment, nomination of CBS's staff for fellowship, etc.)

(ii) an agricultural statistician who will concentrate on the crop cutting and other sample enquiries for the collection and compilation of current agricultural statistics

(iii) an agricultural statistics expert who will assist the CBS in analyzing the results of the 1973 agricultural census

(iv) an industrial statistics expert to advise the CBS on the census taking, in conducting the annual surveys of the large and medium establishments, in the quarterly surveys of selected manufacturing establishments

(v) an expert in construction statistics necessary to overcome the present absence of adequate information on construction (due to lack of data on outlays for construction by the government, on construction activity by manufacturing establishments, and on other private construction)

(vi) an expert in transport statistics to advise the CBS on systematic collection of freight and passenger traffic statistics from carriers which could be integrated into consistent regional flows for all major transportation modes

(vii) an expert in household sample surveys to assist the CBS in reviewing and improving the household sample surveys

(viii) a sampling expert to furnish advice, assistance and training in the use and design of sampling in a wide range of applications

(ix) an expert in field operations to assist the CBS in the development programme for field operations and in training regional office chiefs and their deputies in charge of field operations

(x) an expert in data processing who will assist the director of the Data Processing Centre (DPC) — CBS in the organization, use and management of the electronic computer facility and the training of system analysts and programmers.

(xi) an expert in data processing who will advise on system analysis

(xii) an expert in demographic statistics and analysis intended to furnish advice and assistance in respect of

(a) the tables, analysis, publication and use of the 1971 population-census

(b) preparing population projections and other related studies

(c) improvement and development of current demographic statistics

(xiii) an expert in statistical training to advise and assist in improving the Academy of Statistics — CBS, and also with respect to the organization, the in-service training of CBS staff including its regional offices, and of other government statistics departments

(xiv) an expert in government and national accounts to assist CBS in compiling an adequate set of pubic sector accounts that should be established in a national accounting framework and should apply to the economic and functional classifications to the UN-SNA

(xv) short term advisers: provisions is made for a total of 18 months short-term consulting services

Besides the above mentioned Statistical Development Programme, the CBS enjoys technical assistance from other international agencies, such as the Asian Institute, the Asian Statistical Institute, the Colombo Plan (Australia, Canada, India, Japan, U.K.), ECAFE, the FAO, Ford Foundation, the ILO, Institute of Social Studies of the Netherlands, ISEC (Indian Stat. Education Centre), ISI, the UNESCO, the UNICEF, the UNIDO, US-AID, WHO, etc.

As a consequence Indonesia looks forward to a more effective and stronger statistical system in the near future.

BUSINESS ADMINISTRATION: CURRICULAR IMPLICATIONS

J. PANGLAYKIM

INTRODUCTION

Business schools should be able to define their objectives clearly. These objectives should reflect the present stage of society's development as well as future changes, challenges and developments. It should also reflect the requirements, wishes and expectations of the "consumers". From the clearly defined objectives, curricula and organizational structure and manpower, we may have an indication of the schools' effectiveness and quality of their graduates.

The clearly defined objectives must be backed up by an adequate curriculum. A curriculum should be seen as the mechanism to carry out the objectives of the school.

Objectives and curricula supported by the right organizational structure will possibly give the leadership of the school an opportunity to staff the school with qualified and high calibre manpower. On its part the leadership should be able to create conditions conducive to enthusiasm, initiative, loyalty and devotion. These qualities do not come overnight, they have to be cultivated.

DO YOU KNOW THE REQUIREMENTS AND WISHES OF OUR CONSUMERS ?

One of the important questions which "haunt" business schools is: "Do we know the wishes and requirements of the future employers of our graduates, whether they be in the private sector, the

government or other institutions?" Carkeek in his paper ("Business Education in Modern Society", 1969) raises the following questions.

1. Are there any universal qualities that all executives, middle managers and top managers should have ?
2. What special qualities are required in a managing director, a chief accountant, or a permanent head of a department ?
3. Is each position unique, thus requiring a different set of qualities from any other position ?
4. How does one measure or even recognize any of these qualities in an applicant for a position ?
   How can one help a man to overcome some of his present weaknesses and limitations ?
5. How does one prepare a man or woman for administrative responsibility in the first place ?

If one tries to answer all these questions, the answers will be inconclusive. But despite the inconclusiveness of the answer to all these questions, business schools all over S.E. Asia keep growing, generally after the American pattern.

Taking the American pattern as a guide, with the necessary adjustments and adaptations to suit the national environment and conditions, we should probably ask ourselves: "Are our schools now producing the right kinds of managers for the present and future needs of business, the government, and of society in general? Do we need specialists, or do we need more generalists? Or do we need specialists in the first instance who are afterwards trained to become generalists? In the past the stress of the colonial administration seems to be on the generalist. It was possible for a lawyer to become a top-executive in a manufacturing firm, for a medical doctor to head an economic statutory body. It was even possible for an engineer to work in a Planning Department and be in charge of detailed economic planning.

OBJECTIVES ON BUSINESS SCHOOLS

Let me try to spell out what I think should be the objectives of business schools. I am aware of the fact that this is based on my subjective opinion and I may also be biased in my definition.

1. The general objective of business schools is serving the needs of business and society, and training students for useful and renumerative positions at the management level, including the functional fields, like marketing, production, personnel, finance etc. In particular the schools should inculcate among the students a sense of commitment not only to his future employer and his own ambitions, but also to the development of the country.
2. The Schools should provide the students with a broad preparation for a lifetime career in management and/or administration.
3. The Schools should also prepare a student for his specialty on which he can always fall back, but at the same time provide him with the tools which will enable him to move to a higher position later in life.

In other words, the objective of business schools is to concentrate on the fundamentals and to train the students in such a way that they will develop an ability for continued self-education, the capacity to learn for themselves. But in addition to the training of students for these career objectives, business schools must also train a group of people who will not go into business but who will be more attracted and devote their life to the continuation of business schools and who will devote their time to basic and applied business research which will contribute to the rapid development of society. The complementary objectives are:

1. The education and training of future lecturers and research workers in all aspects of business administration.
2. The accumulation of knowledge and experience through basic and applied research.
3. The development of expertise and manpower which will enable the school to perform services for the government, for business and for the community at large.

MAIN STREAMS OF BUSINESS EDUCATION

Business schools in the USA can be divided into the following main streams.

1. Schools based on the principles of scientific management and organization of business. Their stress is on the rationalization of management, and their focus of attention is on such quantitative aspects as mathematical models, operation research etc.

2. Behaviourist schools which regard business enterprises and undertakings as social organizations which exist and operate in and have its relations with society. They stress the relationship between the participants in an organization.

3. Business schools which were influenced by and grew out from, the departments of economics, accountancy, or commerce. These are apparently more concerned with the analysis of data and the economic results of business.

At the Conference of Business Schools held in K.L. in August 1971 G. Mendoza gave the following classification of business schools in the U.S.A.

1. **Knowledge-oriented Schools:**

   Tney are considered offshoots of the undergraduate B.B.A. program and focus on the imparting of knowledge in terms of functional specialization. UCLA is an example of this stream.

2. **Skill and Decision making oriented Schools:**

   For these schools it is not a question of what one knows, but of decision making. Give the student the basic tools and develop his skill in decision making. This can be observed at the Harvard Business School. MIT also falls under this category, with an additional stress on quantitative aspects.

3. **Operating management oriented schools:**

   They form a new stream. They take the company as the basis. Van der Bilt University is an example of this kind of school. The various streams are briefly discussed here. They have an impact on the curricula and methods of teaching used in the S.E. Asian countries. The Asian Institute of Management will be patterned after Harvard. Our schools in S.E. Asia are still too young for classification. They are generally knowledge-oriented but the system of case studies used by them may be considered as decision making oriented.

CURRICULA

As mentioned earlier, a school's curriculum is the mechanism through which the school tries to implement its objectives. It must be noted here that no one curriculum is ideal, and each school has to develop its own curriculum based on its objectives, the strengths and weaknesses of its organizational structure, and the availability of manpower and other environmental constraints.

The general principles to be considered as guidelines in the preparation of a school's curriculum are:

1. The development of skills in problem solving in a developing, complex and dynamic environment;
2. The development of organizational skill which imparts the ability to devise administrative/management arrangements which contribute to effective and efficient decision making;
3. The development of skill in interpersonal relationship, which assists a man to work with others, to lead others and to achieve high efficiency and harmony;
4. The development of skill in assessing and understanding the political, social and economic environment in S.E. Asia and the ability to consider these data as part of the firm's strategy and decisions;
5. The development of skill in communication of oral, written, and numerical information.

Based on these guidelines, I am proposing the following detailed curriculum (see appendix 1).

ORGANIZATIONAL STRUCTURE

The organizational structure or programme must be designed in such a way as to give the school maximum freedom to achieve its objectives, but in practice, university politics and rivalry between departments will have an impact on the organizational structure.

Some of the schools or departments of business administration are part of the Faculty of Economics and in making crucial decisions they may be outvoted and outnumbered by faculty members who are not directly involved in business administration.

It is important to the development of a school or department of business administration that, organization wise, it be not part of a Faculty or School of Economics. It should be organized as a separate school, faculty or department. This organizational structure will enable it to develop without too many constraints. It is very important that from the very beginning of its formation the school is given enough authority to recruit its own staff with the assistance of older and more experienced teachers. The inbreeding should be avoided as much as possible.

A school of business cannot grow to maturity as long as it lives under the "shadow" of a bigger outfit. It has to be an independent school, faculty or department.

If this principle is adopted and understood by the leadership of the University, it is up to the appointed leadership and staff of the business school to implement its objectives.

STAFF

In general, business administrators of schools in S.E. Asia are faced with the problem of staffing their schools with highly qualified lecturers. Many of these schools have organized training programs through which they have associated their schools with established business schools in the U.S. The teaching staff of the Business Administration Department of the Faculty of Economics of the University of Indonesia have been mainly trained at the University of California. The Department was established with the assistance of Dutch professors, but as from 1958 it was affiliated with the University of California. Almost all of its lecturers in business administration were trained in the U.S.A. The Department of Business Administration of the University of Singapore established five years ago is affiliated with the University of British Columbia, Canada. Practically all the lecturers from the department were trained there. The UBC reflects the pattern of an

American university. All textbooks used are from the U.S.A. The Asian Institute of Management of the Philippines is inspired by the Harvard Business School. Many of its teachers were trained at Harvard. The School of Business Administration of the University of Malaya has trained some of its teachers at the UBC and a number of English universities. It is part of the Faculty of Economics. In other words, the staff of the various schools of business in the S.E. Asian region have been trained in the U.S.A. and only a minority at the English Universities. This cannot but have an impact on the curriculum and the materials used in the training and education of our future administrators. The textbooks used at these schools are practically all from the U.S.A., and so are the textbooks designed for those graduates who are going to work in modern organizations. These books analyse the workings of modern economics, business and marketing structure, and are based on the philosophy of pragmatism and realistic considerations.

SOME OBSERVATIONS

1. Our graduates, who have, through their training, been exposed to the modern world of management and organization and to the workings of modern business administration, will enter their jobs with high expectations. On the one hand, they expect to be able to contribute substantially to the success of the company, but on the other, they also expect to receive rewards commensurate with their putative contribution. Although it is a fact that their salaries will generally be higher than those of non-degree holders, they do not measure up to their expectations. They become frustrated, dissatisfied, and wonder where they went wrong. Where lies the mistake? Are we training graduates who still cannot be absorbed by the community at large?

2. Let us now look into the present and future developments in the business structure in the S.E. Asian countries. In the past businessmen were, and at present in many developing nations are, considered as parasites of society. Because of its low status, business attracts only dropouts or people who have decided to sweat it out in business. Although the situation is changing

in many developing nations, a managerial position in business has not yet acquired the high status accorded to a position in government. In Indonesia, Malaysia, Thailand, and less probably in Singapore and the Philippines, a government position is considered higher than that of a business executive. Businessmen are generally expected to "serve" the government officials because the latter are of a higher status and in a more powerful position. The consumers of our graduates are the private national sector, the private foreign sector, state owned corporations and governmenal statutory bodies.

The National private sector

In S.E. Asia the national private firms are generally small and medium size organizations. The bigger organizations like the OUB., OCBC, Intraco, Pertamina, Kwok Brothers, Summit of Thailand, the Lopez Suriano Family in the Philippines, etc. are small in number. Although many of them are now employing university graduates, the majority of these firms are still family controlled. The Kian Gwan Company, for instance, will only appoint members of the Oei family in its top-management. The number of graduates who could be absorbed by the more modern and bigger organizations is limited. Not only are they limited in terms of number and availability of positions, they are also constrained in their upward mobility because they are not members of the controlling families. Some of the graduates may be employed by medium size firms, which generally tend to be more family controlled than the bigger ones.

My general observation is that the national private firms in S.E. Asia do not seem to be very attractive to the top graduates of the schools. The pay is small, promotion possibilities are not very great and there are other constraints, such as working under a self-made man. But there is definitely a group of graduates with a greater sense of commitment who are prepared to sweat it out in a national private firm.

Many of the national firms and the majority of firms in the medium size category are not running their organizations and business undertakings according to the precepts contained in the textbooks we are using.

Private Foreign Firms

These firms are generally part of a world organization. They are generally of the multinational corporation type. They are in mining, oil, extractive industries, manufacturing, banking, insurance etc. They may come in as wholly owned subsidiaries or as joint ventures, or may establish representative offices.

Many of these companies are now operating in a big way in the S.E. Asian region. They are the companies which will be able to give more job opportunities and job satisfaction to the graduates who are realistic and after pecuniary rewards. Having a higher social status, these multinational corporations attract the top echelon of our graduates. These firms can provide more facilities as well as training, and with them chances for advancement are greater although in many cases the top jobs will remain in the hands of the men from Headquarters. What the graduates have learnt at our business schools will be more relevant when they are employed by multinational corporations, because these enterprises are among the economic organizations which they have been exposed to in the textbooks. Such concepts as segmentation of markets, marketing mix, etc. will be applied by these companies as part of their daily operations.

State-owned companies, government agencies etc.

There was a time when many graduates were inclined to join state-owned companies or government agencies because of their status in society as well as the power attached to a position in such bodies. In Singapore the graduates probably have a more realistic attitude. Their priorities relating to working for government agencies and state-owned organizations may be different from those of their counterparts in the other S.E. Asian countries. These organizations are generally bigger than private owned firms and in joining them university graduates may be in a better position to achieve advancement. But as is the case with any government owned or government controlled body, such organizations are bound by rules and regulations which may prevent the graduates from practicing the daring entrepreneurship inculcated by the foreign textbooks.

3. My impression is that the impact of our present curricula, which have generally been patterned after those of the U.S. business schools, strengthened by the influence exerted by staff members who were trained abroad and thus used to, and "indoctrinated" by, foreign textbooks through the many affiliations and the donations made by foundations etc. has been that we have trained overqualified people in relation to the stage of development of our national business structure and our government and state-owned enterprises. However, we must note here that our graduates will have the advantage of a better formal education when they join the bigger national firms. The problem for them is how to cooperate with the other, less trained, people. Foreign companies are generally in a better position to accommodate our graduates, because they are part of the institutional structure on which the textbooks are based.

4. With this gap in mind it is the responsibility of our business schools to embark on a systematic basic and applied research into our business society and the environment in which it has to operate. In my opinion the principles used in setting up our curricula and the organizational structure to back them up are sound. But a more vital aspect is that it is now time for us to make a concerted effort towards more basic as well as applied research into the S.E. Asian business environment and its role in their respective national economies, the ASEAN region and international business.

   One important kind of basic research is that relating to theories of organization and principles of management. Are these theories and principles as set forth in various foreign textbooks, applicable to the S.E. Asian business environment? Are the differences among them basic in nature or are they but minor differences ?

   Another objective for research is to find ways to speed up the penetration of professional managers into the various family owned businesses. And again we speed up mergers so as to establish bigger and more modern organizations.

   The development of a money and capital market is one of the most effective mechanisms to initiate a rationalization process

among the inefficient family organizations and the medium size enterprises. While the world trend is toward the creation of bigger and more efficient organizations, the region is still at the level of medium size organizations. Will the region not be pushed back to a position of being mere middlement for the giants ?

In other words, I am stressing the point that business schools should not merely focus their attention on the setting up of excellent curricula on paper, but that they should also seriously consider the contents and the suitability of these curricula to our society not only in terms of textbooks, which eventually have to be written by ourselves, but also in terms of their relevancy to the stage of development of the region, taking into account its future growth. We have to train graduates who can cope with the challenges that lie ahead.

5. My suggestion is that the various business schools should set up a separate business research centre with its own staff which will be in charge of basic as well as applied research in all aspects of business administration including the writing of textbooks and case studies.

Even if the various schools in the region cannot afford this luxury, it should be possible for them to get together and discuss the possibility of setting up at least a Regional Business Research Centre with the same assignments. I am of the opinion that the Rihed will be the most suitable organization through which this suggestion could be discussed with the various schools. It is also my opinion that the contents of the present curricula, even if backed by a proper organizational structure and a well trained staff, will not serve society according to expectation. It is therefore vital to the business schools in the region that they give top priority to the establishment of a Business Research Centre. In this connection the most important thing is not the establishment of the centre, but its devotion in carrying out its assignments. Combined and coordinated effort or even a centre initiated by the Rihed may be the solution. Applied and basic research in business administration, if successfully carried out, will assist our top decision makers in formulating national policies.

Applied and basic research will also contribute to an increase of the region's esteem for the business executive so that gradually this group will move up to a position of leadership in national development. Once a higher status in society has been accorded to the business executive, the cream of the student population will be induced to study business administration later to join the bigger, more efficient and modern national organizations. I suggest that the Rihed appoint a small team to work out this proposal in more detail for the purpose of preparing a feasible program.

SUMMARY

In summary it can be stated that the present curricula, organizational structure and staffing of the business schools in S.E. Asia seem to have resulted in the production of overqualified graduates in relation to the needs of the national private firms, the state-owned enterprises and government statutory bodies. The University graduates generally fit in better when employed by multinational corporations. Our curricula and the impact of training abroad have imposed on the business schools a pattern reflecting the various streams of business schools in the U.S.A.

Taking into account the present stage of development of the business and economic structures of the developing countries in S.E. Asia we need business schools with a different stress.

First of all we must assess the stage of development of our business and economic structures and the sophistication of our administrative apparatus. Such an assessment is needed to enable us to gauge the trend of developments in the next decade. Because no such assessment has been made in a systematic way, I therefore suggest that it is the responsibility of the business schools to give special attention to basic as well as applied research. The schools should give top-priority to these aspects of research, because otherwise our teaching will continue to be based on curricula which will result in graduates who cannot be accommodated by our community.

Should the schools be, as yet, not in a position to establish such a Centre, the RIHED could initiate one on a regional basis.

It is of the utmost importance that the business schools, in addition to the teaching staff, employ a group of researchers with the purpose of developing a system which will fit into the present demand structure for graduates and meet future needs.

Another important impact of our graduates on society is that their increasing numbers will become a force towards the employment of more and more professional managers.

The organizations which will employ our graduates as professional managers are those seeking mergers and making acquisitions. However, since mergers and acquisitions have as their objective the creation of more efficient and effective modern organizations, a developed capital and money market is a pre-requisite.

Appendix I

GENERAL EDUCATION

1. **Humanities:** Language, Literature, Elective in the Humanities
2. **Natural Sciences:** Mathematics, Natural Science
3. **Behavioural/Social Sciences:** Behavioural science, Economics
4. **Other Social Sciences:** Comparative Political Systems and Development in S.E. Asia, etc.

Core Undergraduate Courses

1. **Theories of Organization,** including Principles and Practices of Management
2. **Functional Management and Environment**
   Finance, Marketing (Incl. introduction to International Marketing and Business), Industrial Relations (including Personnel), Human Relations, Production or Operation Management, Production, Banking
3. **Information System**
   Managerial Accounting, Statistical Analysis, Introduction to Computer Systems
4. **Aspects of Business Environment**
   Law, Politics, Sociology etc.
5. **Overall View**
   Business Policy

Graduate Level

Graduates may major in the following areas:

1. Personnel
2. Marketing (In particular, international marketing)
3. Finance (including banking, insurance)
4. Production
5. Research
6. Other subjects depending upon the availability of teachers.

CRITICAL ANALYSIS OF THE PROCESS OF EDUCATIONAL REFORM IN INDONESIA

A.M.W. PRANARKA

WHY CRITICAL ANALYSIS ?

There exists in Indonesia at this time several serious factors which we believe compel us to expend the maximum effort in formulating a thoroughgoing critical analysis of the educational system to serve as the basis for both an assessment of our current situation and to provide some direction for future developments in this field.

The first of these emerges from the fact that the world of education in Indonesia and in fact the social situation of the developing nations in general seems to have plunged us into the void between two worlds, the first of which is dying while the second confronts grave difficulties in its efforts to be born.

Education has become simultaneously an issue of both hope and despair, provoking optimism for social change to a better future and at the same time creating widespread scepticism and frustration. This very situation has fostered a psychological demand for critical analysis to assist in the search for certainties and answers.

The second reason is the sheer relevance of a critical analysis at this time coming as it does at the end of PELITA I (First Five-Year Development Plan) and on the eve of the adoption of PELITA II thereby enabling us to explore the successes and failures of the initial period to assist us in our preparations for a better PELITA II. Self-examination and self-criticism must form a component of any integrated effort towards progress and development. Being involved in the unceasing dialectic of history which moves along

within the unceasing tensions between dynamics and limitations we can never escape from a critical urgency. Courage and capacity in formulating critical analysis is a way to progress while paralysis of criticism will place us on the road to stagnation.

CHRONOLOGY AND CONTENT OF THE EDUCATIONAL REFORM

The object of the present analysis will be the world of education in Indonesia, obviously a very vast and complicated issue being as it is a constitutive part of the process of shaping a modern Indonesia. Education has its own history in this country beginning from the early period of the nusantara-communities down to the present time, implying relevance to all the dimensions of the Indonesian society. It is therefore necessary to limit our scope of interest placing the focus of the analysis mainly on the policy of education in Indonesia during PELITA I with the hope of drawing up some notes and suggestions for the educational policy within the period of PELITA II and thereafter.

The main characteristic of the educational policy prevailing during the period of PELITA I has been reform with a new system of national education emerging as a common aspiration.

Efforts to redefine the policy of education, to realize plans for a new system and organization and to implement educational reform have respresented the main activities. These areas have comprised in general such efforts as identifying the problems, planning the educational system, drawing up policies and drafting programmes and projects for educational reform. It was during the first years of PELITA I that a policy statement was promulgated by the Department of Education and Culture defining the general directions in which reform would be carried out.

Chronologically the current phase of educational development began in 1968 when Indonesia was entering her first PELITA, a plan in which education was given priority after all of the economic sectors.

It was in 1963 that a seminar was held to inquire into the underlying problems and prospects of education in Indonesia. The seminar formulated several basic proposals for reform including

a general acceptance that any such reform must be based on thoroughgoing planning activities.

This latter point was felt to be particularly urgent given that within the 25 years of Indonesian independence the country had not it seemed managed to develop one consistently well planned strategy for national education. The prevailing education system was found to be both irrelevant to and disfunctional for the rapidly changing demands and mounting expectations.

As a follow-up to the ideas for reform as stated by Mr. Mashuri, the then Minister for Education and Culture, an office of Educational Development known as Badan Pengembangan Pendidikan (B.P.P.) was installed through a Presidential Decrce of 1969. This institution was enthusiastically supported by both UNESCO and UNDP the former of which has in fact provided consistent support for all moves towards educational reform.

In November 1970 a Basic Memorandum of Educational Policy was issued by the Minister of Education and Culture in which both the fundamentals and operational guidelines of the new educational policy were expounded.

It was on August 16, 1971, midway between the second year of PELITA I that President Soeharto reemphasized the importance of educational reform stating that the system as well as the structure of national education ought to be closely integrated with the efforts to work for progress and development. The President further stressed that the educational programmes ought to comprise of both short and long term objectives consisting of a strategy of rehabilitation and construction.

The main conclusions of the new policy on education crystalized step by step eventually dictating that Indonesia ought to develop a new system of education functionally integrated into the social development of the nation. The resultant Development Educational System (sistim Pendidikan Pembangunan) required that formal schooling took the form of a Development School (Sekolah Pembangunan).

Development Schools seemed the major issue in the following period with efforts and studies being directed to finding ways of defining and giving concrete structure to enable their realization.

In 1971 a seminar was held in Jakarta to discuss the overall prospects and programs of the Development School while a second seminar in 1972 attempted to draw up more operative details.

It was formally expected that the new system could begin operating in 1974 to coincide with the beginning of PELITA II and that within a period of 10 years i.e. by 1984 that it would be operational throughout the country.

However, the process of educational reform met mounting obstacles particularly the growing confusion and controversy over the new system. These doubts had their impact upon the debates and discussions in the People's Consultative Assembly's (MPR) general sessions in 1973, however, this body laid down some decrees on the general outline of the educational policy which were implied in the Broad Lines of the State Policy.

In the same year Mr. Mashuri who had presented the idea of the new educational system was replaced by Prof. Sumantri Brodjonegoro who on the 2nd May 1973 in his first policy statement as the new Minister of Education and Culture emphasized that the process of reform was to be continued with the minimum of tension and sacrifice.

Much of Prof. Sumantri's attention was directed to elevating the social status of teachers, however, the last days of PELITA I were marked by his sudden departure leaving the world of education in Indonesia an as yet unanswered question on the eve of PELITA II.

Of more importance than the presentation of chronological data is an examination of the contents of the new educational policy in an effort to answer such questions as "what are its main objectives and basic assumptions ?"

Any such attempt again meets with certain problems as the issues concerning its content appear to have developed and suffered from changes through time, however, certain key features can be identified.

In the first phase there were three main issues concerning the content of the new educational policy:

a. There ought to be one system of national education;

b. The system of education in Indonesia ought to be functionally integrated with efforts to work for social development.

c. There ought to be a single administration for national education.

These three issues were meant to overcome the existing confusion, disfunctionality and irrelevancy of the educational system.

The next phase was especially directed towards efforts to realize these objectives implying involvement with the problems of *quid-quis-ubi-cur-quomodo-quando* of the new education. In short it was a period in which the macro-strategy of the educational system was disaggregated into its micro components implying efforts to redefine the new principles of education in operational terms, for planning the new curriculum, the new paedagogical approach, administrative construction, territorial planning, allocation of resources etc. Here the content of the new education was directed to meeting percieved qualitative, quantitative and administrative demands while at the same time ensuring its relevance to both the countries economic programmes and short and long term objectives while recognizing the need for minimum expenditure of human and financial resources and the prevalence of limited facilities.

It was to meet these demands while faced with the hard fact of resource scarcity that further formulations on education were drawn up namely that:

1. Education is to be considered as encompassing conscious efforts to develop human potential, to make the individual capable of developing his personality, of mastering the natural environment and of effecting social as well as cultural progress.
2. The new educational system adopts the principles of life long education. This means that the Indonesian society is to be transformed into a learning society as one educative community.
3. This life long education necessarily implies that education is implemented not only through formal but also non-formal schooling.
4. To meet the demands of social development as well as those presented by employment problems education ought to plan balance between vocational and academic streams.

5. All of the above factors have their consequences in the organization of curricula and school administration.
6. As effective education depends very much on the teaching staff it is therefore of importance to raise the quality of teachers.
7. Education will be the responsibility of the whole society encompassing the government, parents and the community. This factor has consequences for the extinction of the existing conventional distinction between private and public schools hence the state's examination was abolished.
8. Educational financing is to be supported through collective sharing by the government, the family and the community.
9. Innovations in the educational system are to be carried out through several reform centres at which experimental pilot projects for the new system have already been tested, this role also explaining why the pilot projects are affiliated with eight teacher training colleges throughout Indonesia.
10. In the meantime efforts have been made to develop the Department of Education and Culture to make it capable of becoming a strategic centre to lead such innovations.
11. Emphasis has been placed on reforming the pre-University education with additional stress on the importance of non-formal education (i.e. adult education).

In 1972 the Department of Education issued a manual on educational reform outlining the basic considerations and main directions of the new policy. However, many areas were left undefined at a time when uncertainties remained unanswered and controversies were mounting up. Among these were questions centring on the structure of the schooling which was still being confusedly debated: was the 6—3—3 to be changed and the 8—4—4 pattern to be adopted? Discussions on the structure and the organization of non formal education, on continuous progress (to take the place of the conventional classroom pattern) were on the mode of operation. Not infrequently the new policy was obscurely accused of avoiding principle of socialization by giving too much attention to the qualitative aspect without adequately considering the quantitative demands of education. Controversies on priorities were also coming to the fore. The practical link between education and social development seemed still confused; this aspect

encompassed questions on the relationship between the educational system and economic planning in general and employment planning in particular not only at the national but also at the more concrete regional levels. Not infrequently the presence of corrupt educational administrators (with widely confused systems of administration) particularly at the regional levels aroused great scepticism on the possible success of the reform plan.

It is not surprising that controversies over the philosophy of education were still coming to the fore in 1972. It appears logical that the system of national education is to be grafted from the spirit of the constitution and the Pancasila. The educational system has as its major objective the development of the Indonesian population to a level sufficent to utilize their human potentials as a tool to build their society, this goal of promoting those values and attitudes necessary to shape the Indonesian people into a creative national and social force must always be borne in mind. While it inevitably follows that the Indonesian population must be imbued with the national spirit realised through Pancasila-morality programmes, the crucial controversy here revolves around the respective roles of Pancasila-morality-instruction and religious instruction within the new system of education.

Finally some mention must be made of the crucially growing problem of educational finance for all social planning should be supported by its respective cost analysis and more importantly by its available budget. It has come to be realized that educational reform is facing serious financing problems and due largely to the prevailing scarcity of financial resources the state budget has made only a small allocation for education. This very fact has become one of the reasons for the controversy between an economic or non-economic approach which ultimately challenges the very assumptions of Indonesia's overall development planning.

THE PROCESS OF REFORM

From the above discussion we can observe that while the process of educational reform appears to have been initiated with the hope of accelerated activity progress has in fact been retarded if not subject to total stagnation.

At the outset educational reform represented a true movement encouraged by Government initiated aspirations and backed by widespread support. There was a common belief that 25 years of undefined educational policy had resulted in a social maladjustment encompassing ideological, economic, social, cultural and political distortions which the new political order was eager to rectify. Basic remedial measures were to be directed towards the primary element, the human factor, with education being the chosen weapon. Hence it should not be surprising that the emergence of the new order had logically stirred up demand for educational reform the enthusiasm for which could be seen through actions such as decree no XXVII of the People's Provisional Consultative Assembly (MPRS) which in 1968 stated that 25% of the state budget was to be spent for education.

As all social reform was to be based on planning it was only logical that the process immediately entered into the phase of planning activities; this consisted of efforts to define the macro strategy of reform as well as breaking it down into the details of its micro components. Simultaneously reform of the institutional structure was undertaken implying efforts to reorganize the basic pattern of educational administration throughout Indonesia generally and within the Department of Education and Culture in particular.

It was at this stage that dilemmas and controversies began to appear and the process of retardation became apparently unavoidable. Notwithstanding all attempts to arouse social participation in the process of reform, such actions could not help decrease the growing confusion.

FACTORS UNDERLYING THE RETARDATION

It is ultimately necessary to analyse the factors underlying the process of retardation. Why is the reform retarded? Is educational reform bound to see failures? These were questions which entered many minds causing a type of general frustration and scepticism.

The crisis affecting the world of education does not seem to be limited to Indonesia alone. It is a world phenomenon, a part of the great crisis of humanity these days.

Possibly the root cause is to be found in education itself as it continues to grow and become increasingly complicated. Naturally the deeper cause lies in humanity itself, man being the source and victim of all complicated problems. It has been in this century that people have come to look upon education as part of all social and cultural processes placing it in a position where it must continually attempt to meet the expanding political demands made upon it and adjust to relentless economic and social changes.

For the third world the problem of education has become obviously more serious and complicated changing from being the previously expected main road to progress and modernity to a critical dimension in the complex and vicious-circle-like social problems which characterize these regions.

Not infrequently the historical development of the existing educational policy is the cause of the difficulties as is the case in Indonesia. Education naturally has its early history in Indonesia, however, the so-called modern education began with the colonial period. When the colonial government planned its policy on education it naturally had its own assumptions, however, unfortunately it is that same educational system which has been adapted by the nation, even after gaining its political independence. In fact the late Ki Hadjar Dewantoro, the first Minister of Education and Culture, from the outset emphatically declared that the colonial system ought to be replaced by a new one, however, twenty-five years have shown only slight alterations and certainly nothing approaching fundamental reform.

In the first years of independence there was a popular conviction that education and schooling in particular was the symbol of modernization and freedom. This was the reason why the expansive approach to educational policy was adopted with schools being opened everywhere to meet the quantitative demand. It was realized too late that the expansion of education did not per se bring modernization and social progress.

A further factor adding to the serious problems associated with a quantitative or expansive approach is the emergence of a monolithic system with little attention being given to the urgent need for diversification. Hence we find a pattern emerging which is heavily dominated by general education with vocational training institutions remaining generally unknown.

All of these factors are emerging in a country in which the population continues to expand uncontrollably encouraging a parallel expansion of education conducted without clearcut objectives or targets and without conscious planning to ensure its functionality and relevance.

A further phenomenon of some importance is the narrow philosophy of education adopted by the bulk of the population. Education is blindly identified with schooling strengthening the unpragmatic traditional value of associating schooling with status rather than with the acquisition of knowledge or skills which will have relevance for their lives. There is no life-orientated attitude to education but rather a popular preference for the natural value of education rather than for its real and pragmatic content.

All of the above factors have constituted fundamental weaknesses in the education system within her twenty-five years of independence and in addition to these we must also consider the political life of the nation since her independence.

It is generally known that Indonesia has suffered from a continuous inner power struggle. Politics play a dominant role in the country and each political group has been seeking tactical bases from which to attain their goals with education becoming one of the major tactical targets. This has had its consequences in that the world of education soon became involved in politics with all its associated conflicts and tensions resulting unfortunately in a deterioration in the educational function of shaping the Indonesian society. It is not only the infrastructure of education such as administration but also its content which has been widely corrupted while simultaneously the system of so-called national education has remained unimplemented.

It is clear that the general background of the existing educational policy up until the beginning of PELITA I had already become pregnant with retarding factors. The unplanned strategy of educational policy, its monolithic system, its narrow understanding of education, the existing traditional values, population explosion and politics are all factors which ought to be taken account of in the strategy of educational reform.

It is therefore very reasonable if the first step of the education policy is directed toward rehabilitation with macro formulations aimed at overcoming the above mentioned obstacles.

We must also be aware of the existing factors which have caused the process of retardation within the period of PELITA I. Many of them are a natural continuation of past unsolved problems while others must be categorized as new, however, both are implied in the process of educational planning.

As mentioned above dilemmas and controversies began emerging in the period of planning activities. Obviously reform activities as well as planning will always be accompanied by dilemmas and consequent controversies such as those between old and new, between priorities for objectives etc. People will always be confronted with the problem of selecting and defining criteria, determining the value premises of reform and formulating means to ensure implementation, however, these factors are of particular significance for education given the goal of its integration into programmes for social development. Education is not only a matter of schooling or pedagogy but it is also unavoidably involved with politics, economic development, social problems requiring not only the refining of its philosophy but also the formulation of a concrete sociology of education and technology.

In the beginning controversies centred primarily around fundamental problematics such as educational objectives, however, these were soon followed by more practical problems such as the organizing of curricula, the system of schooling, patterns of education (vocational and academic), socialization of education, its administration etc.

It is possible to identify three types of controversies within the educational debate, firstly academic controversy, secondly controversy motivated by political interest and finally a mixture of these two factors.

Discussion and controversy over the premises of educational reform have brought into question the very assumptions of national development implying debate over priorities, approaches and financing. It is of course undeniable that these very assumptions play an important role in directing the reform activities within the educational sphere, however, it must be borne in mind that the main challenge to educational reform will be the need to secure the maximum results with the minimum of resource expenditure while all the time facing the reality of an unceasingly expanding population.

The critical problem is that the policy cannot adopt the principle of *either* meeting the qualitative *or* the quantitative demand but must rather formulate a new educational system capable of answering both of these challenges. Naturally, national planning which does not give serious consideration to the problems of education will basically represent a retarding factor.

Added to all the above is the fact that the extended controversy over content and structure has made the education problem one of discussion rather than decisive action. The issues involved will become increasingly serious if the approach to education remains merely academic and scientific rather than bring accepted as requiring solution at the social action levels.

Politics continue to remain a major obstacle to effective reform given its not infrequent disguised actions in the field of education. The most glaring controversy attributable to political motivations is that between the secularist and dogmatic approach to education. Following this is the continuing debate between the Pancasila Morality instruction and religious instruction. While operating under the pretext of a "quantitative approach" people of discover political interests at the root of many conflicts.

A further factor must be mentioned if we are to fully discuss the causes of retardation, namely the question of leadership generally and educational leadership in particular. National education reform has failed to get the full support of vigorous educative forces, a fact often attributable to the prevailing administrative system.

News concerning anticipated reform has been spread throughout the country, however, this fails to arouse deep perception on the essence of such reform. The situation is continually deteriorating due in particular to the absence of a unified circle to lead the educational reform. In reality this is urgently needed since the social objectives to which the new education is to be functionally tied requires several fundamental structural as well as cultural changes.

It is rather utopian to expect schoolteachers and education administrators to manage the leadership of the process given that their conditions make them too weak to actively pursue such ideals.

It can be only too easily understood that to decrease the growing confusion is not a simple matter, the process of reform has been retarded while the content and structure of the new system remains undetermined.

However, we should not say that the educational policy during PELITA I has consisted of nothing but failures. The policy has succeeded in laying down the macro strategy particularly in redefining the educational principles and objectives while at the same time establishing several institutions to plan and experiment with the new system. The policy has correctly defined the communitarian operative principle namely that education will be the task and responsibility of the whole community. The mounting demands for education can only be met by unified educative forces.

CONCLUDING REMAKS

All social analysis is by nature policy directed in the sense that it is aimed at acquiring expected social conditions. It is therefore of particular importance that we begin these final remarks by stating the basic assumptions used as value premises in this analysis.

Logically we should begin from the very problem of national development. If education is to be integrated into the demands of development then it appears quite clear that educational planning will always presuppose the assumptions and approaches of social planning in general. Questions concerning the integration of education into social development need no further discussion since it is assumed to be sufficiently clear.

The very assumptions and approach to social development will logically define the role of education in overall development as well as the objectives and projects to be attained through educational programmes. If the planning of social development gives insufficient weight to education then logically all are blameless when little attention is paid to it, however, the discussion should not stop at the logic of the arguments but should rather analyse the premises themselves, that is the very assumptions of social development.

In the author's opinion the role and importance of education in social development is irrefutable. Any social development will depend on two determinants: the development of the "within human resources" and the development of the "without human resources". The Javanese thesis which states that man is the *sangkan paran*

of social progress and development appears quite relevant, man is both the efficient and final cause of progress and development. We must add to this that here we understand man in his concrete situation involved with his world and history, all these factors are the basic determinants of social development.

The acquisition of the desired goals of social development will radically depend upon the human factor i.e. population; it therefore follows logically and is highly relevant that national development should be based on the existing population policy. However, this should not be understood in too strictly conventional manner including only arrangement of absolute numbers but must also encompass the promotion of the existing population to ensure that they become a creative and accelerative force for social development, that is structural as well as cultural development. In this context I am prone to suggest that national development ought to be supported and even initiated with, a clear and distinct cultural policy. By cultural policy I mean all those efforts to develop all those values and attitudes, all those intellectual developments (both theoretical and practical) through which man is made capable of developing his personality, and together with his fellow citizens is able to master all natural resources as well as organizing the social life. Education is both the inherent factor and function of all cultural development.

It therefore becomes clear that cultural and education policies have a srategic function in the process of development as they are particularly directed at development of the "within human resources". It has also become evident that a failure to define clearcut objectives in the planning of national development in general will have its impact on the process of education.

If these assumptions are accepted then we must take the further step of defining the educational policy in its *stricto sensu*.

The main thesis of the education policy in Indonesia appears to be to get the maximum possible effect from cultural and educational programmes with the minimum use of resources at a time when the population is not only expanding rapidly but is also involved in meeting the challenges and demands of social progress. This means that a system must be found which is capable of meeting both the qualitative and quantitative demands and is also flexible enough to adjust to the changing demands of history.

It seems only logical therefore that a wider philosophy of education must be adopted in which education is not merely identified with formal schooling (although this will still have its strategic function) but will include a more diversified pattern of education which must become the responsibility of the whole community.

We must understand Indonesia not only in terms of *communitas politica* and *communitas demographica* but Indonesia, particularly in these times, must also be understood as *communitas economica* and *communitas educativa.*

This means that the crisis and challenge of education are to be met by the entire community as one educative force and by all the educative forces in the society. The policy of etatism is to be avoided.

Here then is the importance of politics. If there is no political stability (whether disguised or undisguised), and as long as education remains a tactical target for political conflicts, the crisis and challenges of education will never be surmounted. Education is expected to have its function and relevance in the political life of the future, however, the expected reform of education will depend on the prevailing political situation. Commitment to education as well as to the national interest is a prerequisite. Distractive conditions in the Indonesian society will always be one of the basic obstacles in the world of education. Politics will continue to have its impact on educational reform as all policy efforts must be founded upon a definite nation-wide political back up. Politically speaking the 1945 constitution should be accepted as the primary model of social development and hence also the primary model of educational planning.

The progress of our discussion has now reached a factor of decisive importance, leadership. National efforts to materialize social development, particularly in the third world, will always be in need of leadership capable of motivating and directing social changes towards social development. There should be a close link between leadership in both political and cultural life, educational administration, being an infrastructural basis of education, ought therefore to be accommodated with new demands and both their own conditions and those of teachers elevated. Naturally a leadership capable of inviting social participation is of importance.

The content of the new education must then be defined — this is the problem of pedagogy — or that of agogy — in particular, a factor we fear which is all too often forgotten given its basic importance in culturally and structurally reforming the population. It ought to be remembered that this pedagogical approach must be understood in its pragmatic sense, not as a matter for academic discussion but rather of action, of agogy.

Experimentation with new educational techniques must be conducted in the light of solving national problems and not fall victim to the possibility of becoming mere scientific exercises. Educational centres both public and private must take part in educational leadership and then hopefully the current state of growing confusion can then be overcome.

In the held of educational financing developments will be the result of many factors including whether cultural and educational factors are considered as of importance in overall planning, the allocated budget and the presentation of realizable programs by educational planners.

In determining the emphasis of reform I believe great weight should be given to pre-university formal schooling as this will make the realization of a more diversified system more readily determinable, secondly, non-formal education should be widely organized within a definite system designed to meet the problems of socialization, unemployment etc. Naturally this presupposes the existing social planning, including unemployment planning, as well as regional construction.

To conclude the analysis I would like to re-emphasize that national development is essentially a process of acculturation. To materialize national development plans we need a well planned acculturation and at the same time leadership capable of creating acculturative process. Population is one of the strategic factors of national development and it is therefore absolutely imperative that we develop a cultural policy with a view to developing the population to be an acculturative force, and in this role we cannot deny the importance of education, we cannot escape from the challenges of social demands and of history. With a minimum of

resources, facing rising expectations, mounting social demands and the challenges of history we must construct a system to maximize the possible effect of any cultural and education policy i.e. to make the population become the strategic acculturative force. This appears to be the core of the cultural as well as the educational strategy in Indonesia now and hereafter.

IN SEARCH OF SPICES : PORTUGUESE SETTLEMENTS ON INDONESIAN SHORES

Paramita R. ABDURACHMAN

In the sixteenth century the Portuguese dominated the scene between Europe, the coasts of Africa, Brazil, India, the Southeast Asian shores, China and Japan. It was a time in which many countries and many cultures had their first contact with Europeans, with new philosophies, different modes of life and different customs. The eminent sixteenth century Portuguese chronicler, Joao de Barros, wrote:

> "The Portuguese arms and pillars placed in Africa and Asia, and in countless isles beyond the bounds of three continents, are material things, and time may destroy them. But time will not destroy the religions, customs and language which the Portuguese have implanted in these lands".

It is not the intention of this article to deal with the many motives, political, religious, economic and others which led the Portuguese on their journeys of discovery in search of the route to the Spice Islands. The material published on these subjects, through the centuries, in many languages and representing diverse viewpoints are found in abundance. But what we rather intend here is to concentrate on the human aspects of the story, focussing our attention on the political setting only when relevant and thereby endeavouring to establish whether Joao de Barros' statement is still of relevance for the present day.

For the Indonesian archipelago contact with the Portuguese started in 1511 and since that time various areas in Indonesia have seen the Portuguese at different times, continuing up to the last immediate contact in the 20th century with Timor. While the

historical facts from the political side of the story may differ, the human aspects follow the same pattern. Thc examples cited of Portuguese settlements in the Indonesian archipelago will be taken primarily from documents on the Moluccas, which harboured the Portuguese from 1511 until 1605, and became important as a result of being both the scene of the first intermarriages, and the main target of the overseas expeditions.

The eagerly sought of cloves, nutmeg, mace and the sandalwood, were known to come from an area usually called the *Spice Islands.* Their location and proper names were kept secret by Asian, Arab, Persian and Chinese traders and middlemen who sold these products to Western merchants. It was most probably only after Affonso de Albuquerque had captured Goa in 1510 and Malacca in 1511, that their proper names became known to the Portuguese. The area, which was called by Muslim traders *Jazirat-al-Muluk*, the area of the many lords, soon became known by its Portuguese orthography, *Molucos, Malucos,* which was the collective name for the islands of Jailolo (Halmaheira), Ternate, Tidore, Bachan, Motir and Makian. The cloves came from these islands, while the origin of the nutmeg and its mace were the Banda islands. The islands in the East, *Timur*, (Portuguese: *Timor*) produced sandalwood.

Malacca was captured in August 1511 and it was there that Affonso de Albuquerque saw a Javanese chart with the locations of the *Molucos.* In November of that year he sent out a flotilla under Antonio Abreu and Francisco Serrao to ascertain the route to the Spice Islands. This was to be the crown on a century of Portuguese searches. The expedition was fortunate in acquiring the services of a Malay skipper, Nachoda Ismail, who acted as their pilot. Upon departure from Malacca, Albuquerque gave strict instructions to his men to refrain from filibustering, to endeavour to achieve good relations with the peoples of the islands and to observe their customs. The expedition took the established route, coasting along the Northern shores of Java, Bali, and the island chain in the Lesser Sundas, where they undoubtedly stopped. From there they crossed over to Banda which they reached in the beginning of December 1511. Abreu returned to Malacca with a shipload of spices. While Serrao continued and after some misadventures reached the coast of Hitu peninsula on Ambon island. In January 1512 he was taken to the then most powerful village of Hitu and was cordially received by the Council of Four (the *Ampat Perdana*), in return bestowing

the title of *Kapitan* and the honorific *Dom* on the spokesman of the council, who is described in later local accounts as *Dom Jamilu*. A treaty of friendship was closed (the *padrao*) and the Portuguese were allowed to establish a *loja* (warehouse cum temporary trading-post).

The news that Malacca had been seized by the Portuguese spread quickly throughout the Malay archipelago reaching the rulers of Ternate and Tidore who although related by blood, were engaged in continuous rivalry for political and economic domination of the area. Each hastened to send envoys to invite Serrao and his party to proceed to the Moluccas, undoubtedly hoping that the presence of a powerful ally would enhance his position, particularly since Serrao had successfully helped Hitu ward off an attack by the people of West Ceram.

The envoy of Ternate, the ruler's younger brother, Kaichil Koliba (later known under his Muslim name, *Daroes?*) arrived first. Serrao accepted the invitation and left for Ternate, leaving behind a small party in charge of the loja. He was well received by Kolano Magira, Ternate's ruler (henceforth known as Bayan Sirullah) and was allowed to set up a temporary trading-post *(feitoria)*. Serrao, and his people settled and eventually he became the Kolano's adviser on military matters. Tidore had to wait another nine years, for the arrival of the Spanish, before its position was similarly strengthened.

On the ship that had carried Serrao to the Moluccas was a Javanese woman who must have become the first Indonesian bride of a Portuguese husband, when Serrao, putting into a harbour of Java's Northcoast, married her. After settling in Ternate, his crewmembers followed his example and took local girls as wives. This was the beginning of a Portuguese settlement initiated by Affonso de Albuquerque after his conquest of Goa in 1510. He was of the opinion that it was better to have married men in the various outposts because the local population would prefer to trade with people who were settled than with a bachelor disporting himself with doxies. No doubt Portugal's economic interests were better served by married men who settled in the new countries, as their heart was more steady and they did not want to return to the mother country immediately; by taking root in their new homelands they would at the same time plant roots for Portuguese interests. This policy was endorsed by a Royal Decree of 15 March, 1518, as the accepted rule

of giving special grants to *casados,* those married men who settled and cultivated the soil.

In the early years of Indonesian (and for that matter, Asian) — Portuguese relations, these settlements were still individual cases, as the natural outcome of men without homes, seeking companionship in faraway places. The majority of the unions were transient and not regular as it was often hard to induce the Portuguese men to marry.

These settlements were formed mostly in the immediate neighbourhood of the official centre of Portuguese activity, such as around a *loja,* a *feitoria* or a *fortaleza* (fortress). Such was the case in Ternate, where, as part of the friendship treaty, the Portuguese had been allowed to erect the fortress of Sao Joao Bautista (Saint John the Baptist). Since the Kolano had just died (of a poison?), the laying of the first stone took place in the presence of the young Kolano Abuhayat (then still a minor), his mother, now the Queen Regent, Nyai Chili Boki Raja (a daughter of the Kolano of Tidore), his nobles and retinue and was accompanied by the sounds of trumpets and the firing of canons. This fortress stood in the neighbourhood of the village of Malayo, on the Northeast side of the island and was meant to protect the trading-post, and the community living inside the fortification. Lojas were established on Ambon island, and the settlements expanded around such places as Hitu, Tawiri, and Hative. The same phenomenon occurred on Halmaheira, Makian and Bachan in the following years, when small trading-posts were established.

To complete the implementation of Portugal's policy of *feitoria, fortaleza e igreja* , or, trading, military domination and the gospel (often pictured as *gospel, glory, gold,* in whatever order was opportune), these settlements were also centers of missionary activity. It had been the custom for every contingent on its way to Africa and Asia to be accompanied by lay missionaries who were in charge of the spiritual needs of the men on board. These laymen, however, were also very often the first people to spread the teachings of Christ when the ship reached its destination. It was not until 1522 that the first batch of missionaries arrived in the Indonesian islands in the form of a group of Franciscans who came to preach in Ternate: they came together with Antonio de Brito who started the building of the aforementioned fortress. Soon there

were churches and chapels in the Portuguese settlements. Apart from spreading the gospel it was certain that the irregular unions were sanctioned, the offspring baptised, and also many new converts made. As ships from Goa and Malacca began arriving more frequently, and the loja and the feitoria developed and retained a more permanent staff of officials, the mixed unions grew in numbers. At the time the Jesuit Franciscus Xavier came to the Moluccan islands in 1545 he claimed that there were already 37 Christian villages in Ambon and Lease.

The missionary activities are a chapter in themselves, it suffices to draw attention to the fact that the overseas church had been placed by 15th century Popes under the patronate *(padroado)* of the Portuguese kings in their capacity of Grand Masters of the Order of Christ. Thus every Vice-Rey, Governor or captain was a patron of the Church and every male Portuguese who left for the East did so in the service of the Crown or of the Church. After reaching India, laymen who married were allowed to leave the royal service and settle down as citizens or traders, and were termed *casados*, or married men. The remainder were classified as *soldados* (soldiers) and were liable for military service until they died, married, deserted, or were incapacitated by wounds or disease.

Albuquerque may have wished the settlements to grow out of unions between (white) Portuguese men and women, however, Portuguese women belonged to the most secluded group of women in Europe, and as a seventeenth century Portuguese writer once boasted, a virtuous Portuguese woman left her house only for her christening, her marriage and her funeral. Besides which the Portuguese Crown tended to discourage women from going out to the Asian and African colonies, with the sole exception of the *orfas do Rey* (orphans of the King) who were orphan girls of marriageable age who were sent out in batches at the expense of the Crown. Their dowries were attractive, consisting of a minor government post for anybody who would marry them. Be this as it may, their numbers were limited and it was alleged that the majority of them either died or else miscarried in childbirth. Others were virtuous enough but were either too old or too ugly to find husbands. There may have been enough Portuguese suitors but not all girls were necessarily married off to these; some were given in wedlock to refugees or vassal Asian princes. However, the number of girls was so small, (only comprising an estimated 20 or 30 among

the annual India Fleet that carried 3000 to 4000 men to Goa) that they made no significant demographical difference to the population of Portuguese Asia and Africa.

The scheme of settlements would have been more successful if there had not been so many captains who were more intent on taking advantage of the financial opportunities of their captaincies than in advancing stable relations with the local rulers and people. Since such was not always the case, there was little chance of making a second Goa, East of Malacca. Ternate, meant to be the Easternmost outpost in the line of defense to advance Portuguese activities, witnessed a turbulent period, finally resulting in a Portuguese withdrawal from the area.

Greed on the part of the captains caused them to meddle in Ternate's internal affairs. In 1529, Ternate's regent, *Kaicil Daroes (Darwis?)*, who ruled together with the Queen Mother was beheaded upon the instigation of the Portuguese. Abuhayat came to the throne, but soon died of an unknown cause. His younger brother Dayalo succeeded him but soon clashed with the Portuguese and was banished together with certain nobles to Halmaheira.

The third brother, Tabarija, then came to the throne, but he too was accused of plotting against the Portuguese captain, Tristao de Ataide, was jailed, together with the Queen Mother and the Prime Minister, Patih Serang, and after two years of suffering was finally sent to Malacca and then on to Goa for trial.

A younger halfbrother, by his late father's Javanese concubine, Hairun, was put on the throne by the Portuguese captain, however, in the meantime news of the misdeeds committed by the captains and the consequent unrest in the Moluccas had reached Malacca and Goa, and a new captain was sent to restore peace and order. Antonio Galvao's administration, from 1536—1539, indeed provided a contrast to that of his predecessor. His policy of good relations with the Ternatan and Tidoran rulers — after he had waged some wars, to consolidate Portugal's position — made it possible to embark on the consolidation of life in the settlement. At that time there were only 18 casados, although the majority of the soldiers had families.

Galvao brought new life to the community; he laid the pattern for the perpetuation and formation of future Portuguese communities. He had come with casados, and it is believed that he also took Portuguese girls along to be married off. Among the new arrivals

were artisans and many new ideas were introduced including the technique of using *pedra e cal* (stone and chalk) for building, first used on fortresses and later to build better houses for the settlers. The style of architecture most probably also changed in that period, making living more comfortable, as did also the introduction of different artifacts, which even today still form part of even the most basic household in isolated areas. The Indonesian language, which still retains Portuguese loanwords, bears evidence of this fact. Words like janela, porta, mesa, cadeira, martelo, cacarola, tela, come into general use.

Another influence on the Moluccan life-style was the introduction of new plants mostly for household use. Galvao had taken with him different samples from the settlements in Africa, Brazil, India and Malacca. He talks in his *Treatise on the Moluccas* about grapes, brought from Malacca, that were prospering and bearing two crops annually. Other plants introduced at that time which remain popular until the present, are the tomatoes, avocados, ketela; all of which greatly enriched the poor Moluccan diet.

A further project was launched which influenced the lives of the peoples in those islands considerably. A seminary was established, where the children of the Moluccan aristocracy came to learn reading, writing, arithmetic and the catechism. The school became popular and even chieftains from as far as Jailolo and Morotai sent their children to attend. The best students were often sent to Malacca for further studies, as was the case with a number who accompanied Xavier on his return from the Moluccas in 1547.

A group of Jesuit priests who had come with Galvao started their missionary work, and were quite successful, even among the nobles. Tabarija's younger sister was baptised and took the name of Dona Catharina. In 1538 she married a trader, Gabriel Veloso, who had arrived in 1521, and had become one of the pillars of the settlement. Besides Dona Catharina, there were other conversions, as far as Jailolo and Moro.

The fame of the settlement spread; ambassadors from different islands came to Ternate, to pay homage, to send sons to school and to receive instruction in the new religion. Two nobles came from Macassar and were baptised, taking the names of Antonio and Michel Galvao. They returned to Celebes, but soon came back, accompanied by the sons of Macassarese chiefs, who also received baptism. It was

also in this period that the captain sent an expedition to the *Raja Ampat*, the rulers and chieftains of the islands of Misool, Waigeo, Gebe and other islands near the big island of *Papua*.

Meanwhile, on the island of Ambon, many changes had taken place since the Portuguese had set up a loja at Hitu. The area had an open harbour suffering from heavy winds during the West monsoon, which made it difficult for boats to berth. The raja of Hitu agreed to give the Portuguese a safer anchoring place on the South shore of the peninsula, near the village of Tawiri and Hatiwi. Here the Portuguese settled and married. The loja at Hitu was still kept to enable the fleet from Malacca to trade and get fresh water. Unfortunately, lust, greed, and ambition on both sides often resulted in clashes. The victims were not only the Portuguese but also the villagers of Tawiri and Hatiwi that had become Christian in the meantime. In 1536, the Hukum of Hative had gone to Malacca and further on to Goa to ask Portuguese assistance against the raids of Muslim Hitu. While there, Bermain had become Christian, and had taken the name of Dom Manuel. It was not until 1538 that Galvao sent a fleet to Ambon which dispersed the combined fleet of Hituese, Javanese, Macassarese and (heathen) Ambonese. Galvao's ships cruised the Ambonese waters to make peace and friendship. It was in this period that the conversion took place of the rajas of Nusaniwi, Kilang and Amantelo, on the peninsula of Leitimor. But there was still ill-feeling in Hitu which came to an open clash, at a banquet, in honour of a visiting Portuguese ship, when a drunken soldier insulted the daughter of the raja. When the soldier was reproached, he hit the raja on the head. The Hituese revolted against this insult and banned the Portuguese from Hitu. A letter to the Portuguese captain says that Hitu did not wish to harbour Portuguese boats anymore. The banned men crossed the mountains until they came to a place on the South shore, not far from the Christian villages, and the Portuguese settlement. Here they came to rest, at a place near the mouth (Boca, now Poka?) of the Inner Bay, and near to Cabo Martim Affonso (now called Tanjung Martafons).

Galvao's captaincy came to an end in 1539, unfortunately due to internal intrigues. There were too many of his colleagues interested in gaining a share of the lucrative trade. The Moluccans petitioned the captain in Malacca that *O Pai* (Father), as his nickname was, could stay on forever as captain. However, Galvao

left Ternate, a victim of the envy of his countrymen, after having spent his personal fortune on the development of the Moluccas, died destitute, sick and unknown in an almshouse in Portugal. His manuscript *Treatise on the Discoveries* became a classic; his other work *Treatise on the Moluccas*, a thorough account of life, mores and customs of the local people, and the political situation of that period, disappeared for four centuries and was only discovered and published in 1965, by an Indonesian Jesuit priest.

Meanwhile, in Goa, certain events were taking place which were to influence Ternate's future. Tabarija, detained in Goa, was befriended by Jordao de Freitas, who had often gone to Ternate either as captain of a flotilla or as a trader. They became close friends, and Freitas even wanted his niece to marry the young king. Freitas advised Tabarija to take the Christian faith, sothat his plight and case would be sooner heard by the Portuguese king. Thus in 1536 Tabarija became Catholic, having as his godfather the Portuguese governor, Nuno da Cunha, and his friend, Freitas. Tabarija took as his Christian name, Manuel, with the title *Dom*. After this he was given a monthly allowance and a house, to enable him to take care of his mother, his stepfather (Patih Serang had married Nyai Chili), and his retinue.

Freitas came from Madeira, where his father was a feudal lord, having received a landgrant from the Portuguese king. He was therefore familiar with the feudal system of these *donatarios*, by which the king would give a piece of land to a faithful servant (noble or otherwise), who would develop the land, in return serving his lord in times of emergency with food and men.

In the same way, the lands of Brazil, after its discovery in 1499, were given away as donatarios, a scheme Freitas also envisaged for the Moluccas. He succeeded in persuading Dom Manuel Tabarija to grant him land in the Mollucas, to be exploited by him and other Portuguese. Thus he could form a Portuguese colony, where products for the spice trade would be directly grown by the population thereby becoming independent of the local people's harvest. Tabarija, having become Christian and thus *Portuguese*, influenced by his surroundings, and in good faith that he was still Ternate's ruler, conceded to the request. In 1537 he gave Freitas the lands between Buru, Ambon and Ceram as *doaçao* (gift), for use by Freitas and his legitimate and illegitimate offspring, for as long as the Freitas family existed. This curious

document, which is still kept in the Torre do Tombo at Lisboa, was confirmed in 1543 when Freitas succeeded in obtaining the captaincy of the Moluccas. It was reconfirmed under the reign of King Dom Sebastiao in 1564, in answer to a claim of Gonçalo Freitas, the oldest son of Jordao. In later years, after the Portuguese had abandoned the Moluccan scene, and were part of the Portuguese-Spanish Union (1580 — 1640), the document became the gangplank of Spanish efforts to regain authority over Ambon in 1610.

Tabarija's fate improved for a few years, however, when both Nuno da Cunha and Freitas were recalled to Lisboa, the new governor — who was a man of lesser means and had many poor relatives to care for — did not keep to the agreement, and soon Tabarija was found to be living in destitute conditions. He was offered assistance from the Casa da Misericordia, which he declined, but omit his contemporaries' record that he had to borrow clothes from a casado neighbour, if he wanted to go out.

Fortunately, Freitas returned in 1543 with both his appointment as captain to Ternate, and also the Royal decree stating that Tabarija had been found innocent, and should therefore be restored to his royal position and prerogatives . Instead, it continued, Hairun should be arrested and taken to Malacca and Goa for trial. It was a difficult task for Freitas who left for Ternate at the end of 1544. Hairun was arrested at the end of January 1545, kept prisoner in the fortress, and then taken in shackles, accompanied by some of his nobles, to Malacca.

Hairun, who as a young boy had been put on Ternate's throne by the Portuguese administrators, had certainly become wiser, and weary of Portuguese interference in internal affairs. His arrest must have been the turning-point in his life. He decided to take matters in hand and according to historical rumours that have persisted, the day after he left Malacca for Goa, his half-brother, Dom Manuel Tabarija, who had been waiting in Malacca for a ship to return to Ternate, fell ill and died, by a poison, administered by one of Hairun's men (30 June, 1545). It is possible that Hairun realized that the return of Tabarija, the rightful ruler, son of the Queen, would make his own position in Ternate difficult. He had not been elected according to custom by the Council of the Kingdom, and in the early years of his reign he was not popular. There had often been letters to the Vice-Rey in Goa, from the Ternatan nobles,

requesting the return of Tabarija, since Hairun was not the rightful heir.

Before his death, Tabarija made a testament on 29 June, 1545, in the presence of his mother, his stepfather, three of his brothers and his nobles, willing the crown of his kingdom to the King of Portugal. In this very European act, we see the influence of the Portuguese surroundings in which Tabarija had lived during the impressionable years of his life. The testament stated that the reason for doing so was that his halfbrother, Hairun, was not the son of a Queen, and was also Muslim. The testament records that his kingdom stretched over Motir, Makian, Kajoa, Moro, Batachina (Halmaheira), and it further requested that his people should become Christian. Dom Manuel was interred at Goa, his mother and stepfather returned to Ternate where they were well received and taken care of by the Portuguese captain and the Portuguese community.

After Tabarija's death, the Portuguese administration could only reinstate Hairun as ruler, and they therefore asked him to return to Ternate. This request he refused vowing to have his name cleansed and insisting on staying at Goa, until his case was investigated and his innocence officially proved. He stated that if necessary he would go on to Lisboa to see the King of Portugal in person, however, he was eventually officially proven innocent, but it was two years before he returned.

Meanwhile, Jordao de Freitas, now captain of the Moluccas, domiciled in Ternate, had sent his nephew Vasco de Freitas and confreres to Ambon island, to take possession of his doaçao. Among the new settlers was a certain Fausto Rodrigues, who later accompanied Franciscus Xavier on his travels, and eventually became the head of the Portuguese settlement in Leitimor (Ambon).

The new settlers choose a piece of land on the Southcoast of Hitu peninsula, near the already existing settlements. It was a fertile strip beween Hukunalo (in later documents called Rumahtiga) and near to the Boca, where there was an abundance of sago-forests, and where the ships could safely harbour, protected against the West winds and attack by the Hituese. The new community differed in nature from the previous settlements in that it consisted of men who had come out specifically to exploit and till the land and to

grow the crops needed for trading, thus removing them from sole dependence on what the local population offered for food or merchandise. The settlement came under the jurisdiction of the fortress at Ternate, but it had its own chief. There may have been women among the settlers and in fact Jordao himself had come with his wife, Dona Maria de Silva, two small children, and two grown sons by a previous marriage. Conditions on the ships were better than in the early days of overseas voyages and thus hardships were more bearable for women.

Freitas dreamt of a Christian kingdom. In the period during which there was no local ruler on the throne, he appointed Nyai Chili Boki Raja as Queen Regent. When his son, Antonio, came with a copy of Tabarija's testament (the original had gone to the Vice-Roy in Goa), he proclaimed the Moluccas as a Christan kingdom. Nyai Chili had to resign, and Freitas himself took over the reign, as governor. It was in this period that Franciscus Xavier arrived. He choose as his headquarters the Portuguese settlement at Hukunalo, and from there he made his travels to the neighbouring Christian villages on the island, then crossed to Seran and Nusalaut and most probably also Lease and Haruku. The following year he visited Ternate, Moro and the islands around it. Wherever he went, he had irregular marriages made official, the offspring baptised, and he preached. Due to his charismatic personality, there were many who took the new faith. His sermons were in Malay, which he had learned in Malacca, and thus he had the Credo, the Paternoster and the Catechism translated into this language. Among the new converts was Nyai Chili; she must have become weary of the misfortunes in her life, and although she was known as a devout Muslim, the contacts with Xavier must have been her salvation. She became Christian, taking the name of Dona Isabela.

Freitas schemes of developing the lands after the example of the Brazilian settlements were never fully realized. In October 1546 a ship arrived, with the envoy of the Vice-Rey in Goa, Bernaldim de Souza, and, Hairun! De Souza brought the news that Hairun was officially cleared and would return as ruler. Freitas was recalled and to be taken prisoner for his misdeeds, and de Souza himself replaced him as captain. Upon Freitas' protests, de Souza answered that no one in Goa or Malacca knew of the existence of Tabarija's testament. Hairun, who had stayed on board the ship, disembarked the next day. Although there was great uproar among the Ternatan

nobles, since they had confiscated his harem and property, no clashes took place, due to the security precautions of the Portuguese captain. The stay in Goa had apparently changed Hairun.

He wore Portuguese clothes and had adopted a European life-style; moreover he had become versed in its arts and letters. Hairun visited Dona Isabela and made peace with her. He had long philosophical conversations with Xavier, who was very impressed by him. This idyllic situation did not last long; soon Hairun deprived Dona Isabela and her husband of their properties and allowance, and most of her retinue was banished to other islands. Although he did not oppose missionary activities, he was re-establishing himself as a Muslm ruler. Xavier left the Moluccas, disgusted and disappointed, both with the actions of the Portuguese administrators and with the growth of Muslim power. When he arrived in Malacca, he sent a Jesuit padre to Ambon, who set up the first permanent Jesuit settlement, and from that period on the activities increased and spread over the islands, as far as Siau, Minahasa, Kaudipan, Bolaang in the North, and the islands South of the Moluccas.

Freitas was sent back to Goa, leaving his wife and family behind. After long, costly processes he succeeded in having his name cleared. He returned again to the Moluccas, but not as captain. The Portuguese administration in Goa realized that this would antagonize Hairun and endanger the fate of the trade and of the Portuguese community. Freitas endeavoured to develop the lands he regarded as his, in Ambon, but did not succeed entirely. In order to protect the settlements, he had a wooden fortress constructed which was not to Hitu's liking, and the raja sent an envoy to the Ratu of Japara, asking her support in return for vassalage. She sent a fleet and prevented the fortress from being built. Freitas protested to Hairun about the incident, whereupon Hairun made it clear that it was Freitas who was *senhor* of the lands in Ambon, while Hairun was only a vassal of the King of Portugal. Freitas finally returned to Goa, where he died in 1555. The settlement, under leadership of his nephews lived on, but did not distinguish itself from the other Portuguese communities, in the years to come. Hairun, and through him, Islam, was gaining power. It did not come to outbreaks of armed clashes with the Portuguese, but skirmishes were not lacking. He was shrewd enough to maintain status quo relations with the captains, and even backed them in their expeditions, among others against Jailolo, thereby extending his own authority.

While Hairun's power was growing, so also did the interest of the Portuguese in the lucrative spice trade. There were no other European competitors in that period as the routes to the Spice islands were kept secret. It was not to be until 1579 that another Western trader would appear on the scene, in the person of Francis Drake. However, as Portuguese trade activities increased, so also did their lust and greed. There was little left of the ideology with which the journeys of discoveries were initiated; if they had once sought first God then Mammon, it had now become first Mammon then God. And although missionary activities spread in this period, and more Portuguese trading posts were established on other islands, such as in Macassar and Supa on Celebes, in Solor, Flores and other islands in the Southeastern corner of the archipelago, the race to and the rape of the Spice Islands continued.

In Ternate, around 1555, the situation slowly develop into a culmination of clashes. The final issue was the harvest of cloves from the island of Makian, which were traditionally reserved for the rulers of Ternate and Tidore. This was appropriated by the Portuguese captain, an act felt as a great infringement on the rules of conduct, involving a matter of adat. When Hairun protested, he was detained together with his ministers. It was rather curious that in this incident the Portuguese were assisted by the Christian Kolanos of Jailolo and Bachan, meanwhile the Kolano of Jailolo had been given the (Muslim) title of *Sultan* (sic.). On the other hand, the Portuguese casados, the traders, the missionaries and the Mestiço population formed one bloc against the Portuguese captain, protesting against the inhuman treatment of Hairun and his retinue. The captain was eventually arrested and sent back to Malacca, and Hairun freed. His authority was growing. The new captain arrived, bringing with him a letter from the Vice-Rey, saying that in line with Tabarija's testament, the King of Portugal was the ruler of the Moluccan islands, while Hairun was his vassal. There was no Hairun's part.

While his authority was growing, he kept opposing Portuguese efforts to build a permanent fortress in Ambon. His reasons may have been many and varied; a second fortress would certainly mean a consolidation of Portuguese power. Trading activities would be stimulated in Ambon. To Ternate it would also mean that Hitu, which had shown ambitions to become a political power in itself and had offered vassalage to the Ratu of Japara in Java, would

benefit from direct trading from Ambon, and thus become less dependent on Ternate.

For the Portuguese, the growth of the settlements, and most probably the increase in produce from these lands, needed more permanent protection. Thus in 1562, Ambon had its first captain, who was, however, still under the jurisdiction of the fortress of Ternate. Antonio Paes, the first captain on Ambon island, attempted again to erect a fortress of more durable material. This action was protested by the ruler of Ternate. The captain in Ternate advised Paes not to go on with his plans, since trade would be endangered. However, Paes did succeed in at least to organizing a militia among the Christian population for the first time in the annals of Moluccan history, an action probably accounting for the Ambonese fame as good military men.

Meanwhile, Hairun was endeavouring to establish himself and his line as the legitimate rulers of a kingdom that was growing in size and power. His position in terms of indigenous rules of law may often have been shaky. As the son of a concubine, put on the throne by foreigners, and not elected by the rules as laid down by adat, — this is the election of a ruler by the Council of the Kingdom — he must have felt the need to legalize his fate. Until the time that Tabarija died, his position vis-à-vis the Ternatans, in particular in palace circles was questionable, added to which was the fact that although Tabarija's mother had remarried and become Christian, her influence was still great. Three brothers of Tabarija who were mentioned in the testament, — although this did not stage whether they were his step- or halfbrothers — may have been contestants for the crown. Hairun's oldest son and crown-prince, Baab, must have come from one of the many wives he had, but her name is never mentioned. With the political situation as it was, both internally and in relation to the Portuguese it would be better to legitimize his position and the accession to the throne by his offspring.

Thus, on 12 February, 1564, one sees presented the testament of Hairun, in which he acknowledges his vassalship to the King of Portugal, and the latter's authority over the Moluccan islands, forever lasting *(pera sempre)*, thereby obliging his offspring ruling over the island to acknowledge this authority. His son, Baab, is twice specifically mentioned as his hereditary crown prince, and

also signs the testament, together with a number of Ternatan nobles, most probably members of the Council of the Kingdom, thus guaranteering that his heir would also become his successor.

In 1565 war broke out when the Vice-Rey in Goa sent 1000 troops to Ambon, under the leadership of Gonçalo Pereira Marramaque. The Javanese troops, numbering 600 men had settled on Hitu peninsula, and together with 2000 Hituese, they fought the Portuguese. Pereira was able to ward off the attack, and being in an advantageous position, asked Hairun's permission to build a permanent fortress on Ambon island. Hairun agreed, on condition that the Portuguese recognise his rights on Veranula, Lessidi and Kambelo (the Western part of Seran). Pereira refused, but he did succeed in erecting a fortress with the aid of the Christian and "heathen" population of the area.

For a while all was quiet, however, war broke out again in 1570, when the then captain again tried to raise the issue of the clove harvest of Makian. Hairun was murdered, and all the Moluccan kings now united and laid siege to the Portuguese fortress, preventing foodstuffs from reaching the men. This siege lasted five years before the Portuguese surrendered and abandoned the fortress.

The ruler of Tidore, afraid of Ternate's power, granted permission to build a new fortification on his island. There the Portuguese moved, including many of the casados and the Mestizos. Meanwhile, Hairun's son succeeded to the throne, calling himself Baab Ullah. His power was continually extending, reaching from the island in Mindanao, Sangihe, Manado and the rest of North Celebes, to the islands in the Sunda archipelago. Such was his authority that he called himself *Sultan*, and soon he sent envoys to Demak and Johore.

Portuguese power was very much curtailed, and they never regained the glory of the mid-fifties. Their activities increasingly centred on Ambon island, where in 1571 the then captain of Ambon had moved the fortress to Leitimor peninsula, away from the constant attacks of the Hituese. Several moves were made until finally the raja of Soya granted him a piece of land where the permanent fortification was built at the end of June, 1576. Together with the captain and his men, many of the casados and the Mestizo families had moved across the bay as also did parts of the indigenous villages, now Christian, such as Hatiwi. They founded new villages

on Leitimor. The fortress on Ambon became again the centre of trading, administrative and religious life. As before the married men lived within the four walls while the Christian villagers lived outside, but still in the immediate neighbourhood of the fortress, constructing here their own church and school. Soon, the other villages on the peninsula, which had relations with the Portuguese administration, had their "representatives" living in the surroundings, and until the present day one remembers the part of town, where the rajas of Nusaniwi, Kilang Hitu and even Luhu (on Seran) had their "embassies".

No mention has been made yet of a group of people, part of the Portuguese community, called the *Mardika*. They were originally slaves, who upon becoming Christian were freed by their masters. They were of mixed blood, Asian, African, Brazilian and Indian ancestry; they had joined their masters at the different fortresses and had also come to the Indonesian islands. Although they had become free men, and could find their livelihood outside the Portuguese settlements, many stayed with their former masters. They lived mostly outside the walls, but in the smoke of the fortress, forming own settlements, having their own chiefs and elders. Like their masters, they married either with the local girls or within their own community. But they remained a group in itself, and only slowly integrated into the indigenous population. Most of them were peddlers, small craftsmen, servants and menial labourers.

In the meantime a new force was appearing on the scene. Since the inception of the Portuguese-Spanish Union under the Spanish king, Philip II, the ports of Lisboa and Oporto were closed by the Spanish for the spice-trade. Soon, Goa and Malacca suffered from this measure and became short of men, money and munitions. This gave the people in Holland the opportunity to develop their own ports in Zealand, Antwerp and Amsterdam, and to compete with the Portuguese for the hegemony of the spice-trade. The first Dutch fleet under Steven van der Haghen arrived in Ambon in 1599, and although Portuguese strength was still superior, he was allowed by the Hituese to build a redoubt on their shores, the *Kasteel van Verre* (at Kaitetu near Hila). It was only in 1605 that the final blow came to Purtuegese power when the then captain, Gaspar de Mellos surrendered the fortress to the Dutch admiral, Steven van der Haghen.

The fall of the fortress and of the Portuguese administration deeply shocked the Christian communities. They were afraid of attacks on the villages from the Dutch side, and thus a few hundred fled into the hills south of Ambon town. Two days after the fall, two priests came to see van der Haghen to discuss the lot of the Christian communities, in particular with regard to the safety of their homes and property and the free execution of their religion. In the days following a deputation of the Christian community approached the Dutch admiral. They were led by Diego Barbudo, a Portuguese casado, accompanied by the rajas of Kilang and Soya, and the chieftains of twenty-one Christian villages and Mestiço communities of Leitimor and Hitu. Bardubo, on behalf of the deputation promised allegiance to the *Council of States of Holland* and requested protection for the Christian communities.

The time had come for the last Portuguese captain to leave Ambon; he went, accompanied by his men and their families, a few hundred in total. The captain went back to Malacca, but the men left partly for Solor, where the Portuguese had maintained a fortress since approximately 1560. The greater part went to Malacca. About 32 families stayed on in Ambon, and Barbudo was appointed their head. The two priests also stayed on.

As long as van der Haghen was in Ambon, the (Catholic) Christians could perform their religious duties as usual, but after van der Haghen left, the Dutch troops, Calvinist by denomination, started bothering the villages. Churches were destroyed, houses wrecked and burned. De Houtman, van der Haghen's representative was seemingly not in a position to stop these acts. Though he punished the soldiers, he also accused the Portuguese headman and the two priests of instigating anti-Dutch acts. Finally he banned the Portuguese from the island. One-hundred and fifty people left, with the minimum of provisions, water and navigational instruments and without a captain on the boat. They sailed Northwards and after drifting for some time reached Sebu, where they were welcomed by the Catholic Spanish communities.

The events in the Portuguese period have become blurred by the passing of times; both local accounts and those of foreign writers — apart from a few scholars, who are not known to the men in the street — have not always recounted in full the eventful history of the Moluccas of those days. Thus, whatever took place in this period, whether activities of local foreign traders in the early centuries,

the coming of Islam, or the exploits of the Portuguese and Spanish, has all become parts of the "time of the ancestors", or of "Portuguese things", meaning something in the far, mysterious past. Yet, if one carefully examines the numerous accounts, letters, and other documents of the period, one is also aware of the changes that were taking place, changes that had already started with the advent of foreign traders, whether these came from the Malayan islands or from as far away as Persia and Arabia. Islam again brought new values and changes in attitudes, new life-styles and an awareness of the money-economy. When the Westerners came, there was another influx of changes, brought about by the Christian religion. In a very typical Indonesian way, all these changes were accepted, *diterima* and integrated. However, thereby loosening or forgetting the ties with the old religion and its social order. Adat, as an expression of man's relations to the Divine Order and the ancestors became a set of rituals, of man-made codes and customs. Adat, the spine of life of the village and its members, became a vine to cling to, in particular when one's personal interest was at stake. Examples of this sudden awareness of the adat, can be found in incidents such as, when the raja of Hitu was hit on the head by a Portuguese soldier. This was felt an insult of the gravest nature, finding its origin in the belief that man's esoteric life is centered in the head of the body. A similar incident is reported in Malacca, by other Portuguese authors, resulting in armed conflict.

Trouble arises again over the harvest of cloves from the island of Makian, when a Portuguese captain tries to appropriate it. According to the rules of the indigenous territorial-genealogical units, the villages, ownership of the produce of the land and sea is solely the prerogative of the member of a village. When raja-ships arose out of the original units, certain parts of land or sea was reserved for the raja's household and his other obligations. Thus, confiscation by an outsider was the gravest injury to the rules of adat. On the other hand, we see the influence of both Islam and Christianity, in the appointment of an heir by testament. Ancient rules of conduct prescribed the election of a ruler (the chieftain) by the village council, or council of elders, whose membership was defined by a system that went back to the original founding of the village by the first ancestors. There was no system of hereditary rulers, but they were indeed elected from a roster of candidates

that came from the family that had always produced them. The rules were strict, and applied to both female and male members; but the criteria for leadership were character, ability and dedication, rather than primogeniture.

Another example of the loosening of adat-links was the introduction of the militia. As first introduced by the Portuguese, its members came from the Mardika, and later, Mestiço population, who did not always have strong links with the village community. Thus, as member of the militia they came under direct control of the fortress, and in later Dutch times, were known as *burgers* (citizens). Their services were rewarded in money or kind, and it is this method, which shifted them from the original codes of conduct prevailing in the area. In the eyes of the villagers, they were not free men. They were not like those people who had the right to live and enjoy the land and the right and honour to defend it in times of emergency. They did not like the villagers have the obligation to keep up the village, to care for the other community-members, and work and do service without renumeration. The recruitment of military men among the village community created an upheaval, whereby the person concerned lost his rights as a village-member and thus became a member of a different social group. Thus was born, in the later colonial times, a *barrack culture*, which brought havoc to the traditional ways of life, and had its repercussions in modern time.

Not enough attention has been paid to the hybridization of the Christian communities, on whom the influence of the Portuguese-Mestiço villages was strong. These villages lived around the Portuguese fortress, the stronghold of social, economic and religious life. Like moths attracted by light, people came to live around these centers, and imitated and adopted prevailing life-styles. It is thus that the mestization of culture in Ambon and Lease in particular began; it is still strong and examples abound: the "Helayu-Ambon" jargon which still retains a number of Portuguese loanwords; songs and dances, added to in later times by other colonial nations. The style of dress, the armoury, food habits and many other exotic memorabilia. And most of all, the attitude towards the esoteric meaning of the traditional laws. It is true that fewer changes took place in the Muslim communities. Their less friendly contacts with the fortress or the trading-post, their clashes of a religious nature,

the continued use of their own language meant they did not change their life-styles so completely.

The strains of different cultures, and in this context the Portuguese culture, accepted first as something new and interesting, then integrated into the autochtonous culture, to become truths, have caused the birth of a new way of life, whose values were more and more removed from the original values. It is true what Joao de Barros once said. The contacts with the Portuguese has in many ways brought an opening up of horizons, and eventually changes, but change is not always progress.

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CHRONICLE

NOVEMBER

Internal Affairs

Three main events have dominated the recent political life in Indonesia: the draft of the new marriage bill, the growing student unrest and preparations for the coming PELITA II.

The draft of the new marriage bill which was submitted by the President aroused widespread reaction, particularly from the Moslem groups. Tension mounted during discussion of the draft by the House of Representatives with demonstrations demanding its total cancellation being launched by Generasi Muda Islam Indonesia and Kesatuan Aksi Umat Islam Indonesia.

To meet the growing tensions Prof. Mukti Ali, the Minister of Religious Affairs, attempted dialogues with various groups while simultaneously the House was collecting views offered by the existing factions i.e. the ABRI faction, Karya Pembangunan and the two political parties, Partai Demokrasi Indonesia (PDI) and Partai Persatuan Pembangunan Indonesia (PPI). The House recommended that the chairmen evaluate all of the collected material between 5—10 November while meanwhile the Deputy Commander of the KOPKAMTIB, Admiral Soedomo, seriously warned that all dissent and criticism was to be addressed through the proper diplomatic channels. He stressed that the government was serious in its attempts to discover the *auctor intellectualis* of the mounting conflicts, tension and disorder.

In the meantime student unrest had come to the fore, tending day by day to protest action. The major activities stemmed from academic circles on the campus being formulated in a series of intensive discussions organized and conducted by the Student Governments in Jakarta, Bandung and Yogyakarta coupled with various discussions by other groups. These meetings resulted in mounting protest and criticism of the dis-orientated PELITA I, foreign investment, national leadership, corruption, socialization, the political structure and other related issues. In the beginning a dilemma seemed to exist as to whether or not they ought to take

political action, however, the emerging movement appeared to reach a conclusion with the issue and widespread discussion of an "October 24 Petition" followed by the "Collective Oath of 10 November". The major student issues were to achieve a revision of foreign investment and to have the Personal Assistants to the President (ASPRI) dissolved.

From 5 to 7 November a meeting of the ABRI leaders took place in Jakarta at which a Defence Strategy for 1974 — 1978 was planned and defined. This meeting was soon followed by a special meeting of the KOPKAMTIB on November 7, intended to evaluate and plan its own strategy for the period 1974/75—1978/79. In his address General Soemitro emphasized that social leadership was to be promoted in keeping with the Constitution and the Broad Lines of the State Policy. Such leadership, it was stated, should be openly sensitive and responsive to the problems endured by the population while in addition institutions for continuous social communications were to be spread and multiplied everywhere. Meanwhile General Soemitro had visited several regions and had held discussions with students developing the ideas of the new open communication and leadership which were to become effective as from April 1974.

On November 8, the Chief of National Intelligence announced that counterfeit currency was circulating in Indonesia.

On November 14, the Indonesian Contingent to participate in the UNO's security army, Garuda VI, was nominated to leave for the Middle East. As part of the continuing effort to reform the administrative system, Dr. Sumarlin stressed the urgency of re-registering all civil servants, an action which it is planned will be executed by March 1974.

From November 11—22, Drs. J. Pronk, the Dutch Minister of Co-operation for Development made an official visit to Indonesia. Together with official talks he also visited several regions while in Indonesia. Mr. Pronk stated that future aid for Indonesia would depend solely on her requirements, however, he felt that two factors were hindering the programme, namely the misallocation of aid receipts and the conditions of credit. On the management of aid finance, he further stated, this was a matter for Indonesia herself to determine rather than being an area for donating states to dictate.

Politically, according to Mr. Pronk, the Dutch government would not like to decrease the level of aid, however, economically, due particularly to the energy crisis, it was a fact that aid is to be minimised.

On his arrival at the Jakarta airport, on November 11, Mr. Pronk was met by a student group who offered him a memorandum prepared by Gerakan Mahasiswa Indonesia untuk Indonesia. This same memorandum was further offered to him by the Gerakan Mahasiswa Indonesia untuk Rakyat Indonesia in Yogyakarta.

On November 17, a discussion with Mr. Pronk was held at the University of Gajah Mada while a similar meeting was held at the University of Indonesia in Jakarta on November 20. On both of these occasions Mr. Pronk stated that the national development of Indonesia was by no means disorientated. Foreign aid did not have to arouse negative influences and it was in fact needed by the developing countries.

From 19 to 21 November a meeting of all provincial governors took place in Jakarta at which special attention was given to the problems of land use planning and rural development. The meeting subsequently issued guidelines for an agrarian policy.

From November 21 through 25, the National Union of Teachers in Indonesia held its conference in Jakarta, with 750 participants from all over the country attending. In his address President Soeharto emphasized the importance of developing human potentials, a goal requiring for its success fundamental reform of the educational system. For the period 1973—1974 6000 primary schools are to be estabished and 57.600 teachers nominated. It was further stated that the government has shown its sincerity in this field by raising the social condition of teachers. The Conference made several important decisions, including the alteration of fundamental characteristics of the Union, thereby changing it from a Labour-Union into a Professional Association, and the definition of the Teacher's Code of Ethics.

Foreign Relations

Mr. Adam Malik's official visit to New Zealand and Australia took place from November 2 to 11. A forum of four states has

been suggested by Mr. Malik, encompassing Indonesia, Australia, New Zealand and Papua New Guinea. While in Australia Mr. Adam Malik held several discussions on regional cooperation. He emphasized that Indonesia has been supporting the idea of Asia-Pacific wider regional cooperation, including possibly the Republic of China.

On November 7, Dr. Yeoh Chim Seng, chairman of the Singapore parliament, arrived in Jakarta for his official seven-day visit to Indonesia.

On November 1, General Soemitro opened the first special course of the Institute for National Defence, which was attended by 18 participants from Thailand, the Philippines, Malaysia, Singapore and Indonesia.

From 19 to 20 November a conference of the special Committee on an ASEAN Permanent Secretariat was held in Jakarta, to discuss the possible structure and organization of the ASEAN Secretariat.

DECEMBER

Internal Affairs

Compromises were attempted to meet the growing tensions and conflict over the draft of the new marriage bill including special meetings and dialogues which were arranged day by day. On December 6, a special Committee consisting of 10 members was nominated. President Soeharto stressed that the bill should be finally ratified by the end of 1973.

On December 4, 5, 6, a Moslem action, launched by Angkatan Muda Islam, Generasi Muda Islam Indonesia and Kesatuan Aksi Umat Islam, resulted in demonstrations to have the draft completely withdrawn from the scheduled programs of the House.

On December 11 and 19, further action took place in Jakarta, supported by the Komite Kesatuan Nasional Generasi Muda Indonesia, Komite Aksi Generasi Muda Indonesia, the GMNI, the GMKI, the PMKRI, GAMKI, GPM and GSNI, declaring and demanding that the

new bill of marriage necessarily ought to be in keeping with both the 1945 Constitution and Pancasila, while further demanding an enactment of the principle of freedom of religious belief.

The mounting disagreement among factions resulted in a quasi-deadlock of the debate, with the overall situation tending to reach. Thus critical level to avoid further conflict and disorder and to ensure stability, the House suggested that the original draft of the bill, submitted by the Government, be ratified with several small modifications. On December 22, the bill was finally ratified. On the same day President Soeharto instructed that implementative ordinances should soon be drawn up.

The student protest seemed to gather intensity, reaching into programs of political actions with criticism of the social situation, national leadership, on the failures of planning and of the PELITA I, being among the main themes. They provoked for political change and social revolution while intensifying communications among the student world in order to consolidate opinion.

On December 18, the students convoked an 'Apel Kebulatan Tekad' in Jakarta, declaring that the University of Indonesia was to take the lead of a social movement believing patience to be no longer tolerable.

On December 24, the students went to the Bina Graha, to the State Secretariat and to President Soeharto's residence at Cendana, however, they failed to meet the President. The Government soon officially announced (on December 27) that the President was prepared to see and have a dialogue with the students after January 7, 1974.

From December 28, student-activities were mainly directed at preparing for the dialogue with the President with approximately 14 proposals and problematics being collected, however, dissent among the students themselves seemingly began to emerge at this time.

On December 31, New Year's Eve, Holy Hour Programmes were held participated in by more than 1000 students in Jakarta with similar activities taking place in Yogyakarta.

In the meantime, Admiral Soedomo, the Deputy Commander of the KOPKAMTIB, on December 10, stressed that up to this time the government had been adopting an educative approach to the

mounting student protest, however, he further seriously warned the students not to create violence, destruction or any type of criminality.

General Panggabean also delivered a warning on December 13, emphatically stressing that the ordinances which prohibit demonstrations were still operative.

In evaluating the situation, Major General Ali Moertopo stated that three distinctions were to be made among the demonstrators: first, there were students motivated by pure intention; secondly, there were students motivated by certain political interests, while the third category consisted of those who were no longer students.

There were several groups constituting the extra-campus movement. Next to the actions organised by the existing Student Government which had its headquarters on the campus, there were various other groups, such as GEMIRI, GMII, Angkatan Muda Opposisi, KNPI, GDUI, KAK, KKN and the like.

Nearing the end of 1973 the main issues of the student protest were: reforming the strategy of development, creating greater and more equal socialisation, changing the national leadership and reforming the political structure, mitigating foreign investment especially that from Japan, and dissolving the ASPRI. Radical action appeared to be preferred.

From November 29 up to December 1, the Indonesian Journalist Association (PWI), held its 15th national conference in East Java. President Soeharto, in his address, emphasized that the right of dissent had its origin in the democratic character and in the critical attitude, these, however, were to be founded upon truthfulness and objectivity. The double communication system was urgently needed, said the President. The conference issued several decrees concerning the importance of journalist education, the responsible freedom of the press and the communication system between the press and the government. Meanwhile the conference also held serious discussions on the emerging paper-crisis.

On December 7, a meeting was held between Dr. Makagiansar, the Director General of Education and the Commission IX of the House of Representatives, to discuss the policy of education in Indonesia.

On December 27 and 29, a plenary session of the cabinet took place to discuss two main problems: programmes of the REPELITA II and the State Budget for 1974—1975.

Mr. Mashuri, the Minister of Information, explained four main conclusions taken by the cabinet meeting:

1. On the assumptions and objectives of PELITA II: they are to be grafted from the Broad Lines of the State Policy. The PELITA II was part of a process of national development, it ought to be a continuation of the PELITA I and a further preparation for the PELITA III. The financing of the programmes were to be based on the balanced-budget principle, while the main objectives of PELITA II are: to get sufficient food and clothing which ordinary people can afford to buy; an improvement of the housing system, employment opportunities, the creation of better infrastructure etc.

2. The proposed State Budget of 1974—1975 was an implementative programme of the first year of the PELITA II.

3. In keeping with the principle of dialogue and communication, the President had instructed all Departments and government institutions to accept all evaluations for the betterment of the PELITA II.

4. In time of an energy crisis such as these days, the government has invited the public to use oil sparingly.

On the eve of the New Year, President Soeharto delivered a state address. He emphatically stressed the significant importance of the year 1973 which he felt had been a year of evaluation. Analysing the general situation in Indonesia, the President gave these following notes:

1. **In Internal Politics**: this year (1973) the People's Consultative Assembly (MPR) had succeeded in defining the Broad Lines of the State Policy and had elected the President and the Vice-President. To meet the constitutional demands, political institutions such as the DPA, the MA and the BPK had been installed and become functional. With Pancasila and the 1945 Constitution as exceptions, all reforms and changes are available, with the condition that these ought to keep to the rules of the game as defined by the Constitution.

2. **On Foreign Policy:** Indonesia has gained positive recognition in the international world. Our capacity to manage internal problems give greater confidence to the international world. Indonesia ought to promote greater solidarity and cooperation with all neighbouring countries.

3. **On the existing criticism:** The mounting criticism, offered by the students, has shown that social responsibility has its place in Indonesia. Especially from the younger generation. However, democracy is not to be identified with criticism. The government will always welcome all sound criticism.

4. **On the Economy:** The People's Consultative Assembly (MPR) has already decreed how the economic problems in Indonesia are to be solved. The main economic policy is directed at maintaining economic stability. There have been several factors, having their impact on our economic situation, such as: the food-crisis of the world, the world monetary crisis, the energy crisis etc. Indonesia's exports have been increased. There have been about 1500 national and 650 foreign investment projects in Indonesia.

5. **On national security:** The President explained that the remaining forces of the 30 September Movement (G-30-S) were practically wiped out, however, they continue to attempt to destroy us through subversive actions.

6. **On Education:** the Government decided to build up 6000 primary schools throughout Indonesia, providing them with the required numbers of teachers, spreading books and other educational facilities.

Foreign Relations

The 15th IGGI Conference was held in Amsterdam from 11 through 12 December. Indonesia has received 850 million US dollars for the period of 1974—1975.

The SCCAN - Conference took place in Bandung, led by Mr. Radius Prawiro. The conference agreed upon the establishment of

two groups to direct ASEAN trade and to manage ASEAN trade relations with the EEC.

Mr. Norman Kirk, the Prime Minister of New Zealand, arrived in Jakarta to begin his visit which extended from 13 to 18 December. The main objectives of the visit were to promote closer cooperation between Indonesia and New Zealand and to examine the possibility of South Pacific Sub-Regional Cooperation.

Mr. Maori Kiki concurrently the Defence Minister and Foreign Minister of Papua New Guinea, arrived at Jakarta for a five-day visit, from 15 to 20 December. While from 26 to 29 December, Tengku Abdulrachman, the Secretary General of the International Islam Organisation, stayed in Jakarta to invite President Soeharto to participate in the Summit Conference of Islamic States to be held in Pakistan from 22—23 of February 1974.

JANUARY

Internal Affairs

While tension resulting from the conflict over the marriage bill eased in this period, student protests tended to reach its climax. While in the meantime growing attention was being shown to preparation of the PELITA II, particularly after the President's speech on January 7.

On January 7, 1974, President Soeharto submitted to the House of Representatives a bill on the 1974—75 State Budget together with a draft of PELITA II. The budget was to be balanced at a level of 1577 billion rupiahs representing an increase of 82.9% over the previous period. The bill is divided into routine (960 billion rupiahs) and developmental (615.7 billion rupiahs) expenditures, the latter of which is intended to finance development programmes according to set priorities. The increased routine expenditure is meant to cover higher government employee salaries with particular emphasis being given to those of school teachers. 96 billion has been allocated for agriculture and the irrigation system, 9 billion for industry and mining, 6 billion for

employment and transmigration, 9.6 billion for promoting religious affairs and 53.5 billion for education and culture.

The draft of the PELITA II, known as REPELITA II, covers thirty chapters divided into four major parts, the first of which is on the main policy of national development, the second on financing national development, the third on sectors of national development with the fourth part specifically dealing with regional development planning of the provinces.

Through PELITA II it is expected that national production will increase by 7.5% representing an increase of 5.2% in per capita income providing that the population grows at only 2.3% a year during the period. By the end of PELITA II it is expected that 82.3% of the total development expenditure will be afforded by domestic revenue.

From the total development expenditure during the PELITA II 1.001.6 billion rupiahs will be allocated to the agricultural sector, 930.6 billion for regional development, 848.7 billion for transportation and tourism, 525.8 billion for education, 370.8 billion for electric installations, 192.1 billion for health and family planning, 185 billion for industrial development and 69.4 billion for employment and transmigration.

In general, PELITA II is to be directed at greater socialization while at the same time education is to be promoted in line with the demands of national development. The President has once again invited wider public participation in an effort to add some notes and corrections to the draft which is to be ratified by April 1974.

On January 11, a dialogue was held between the President and the students at the Bina Graha. State Secretary Soedharmono explained that all views and recommendations offered by the students would be taken seriously by the President in keeping with his function as the Mandatary of the People's Consultative Assembly (MPR).

The students' demands appeared to centre around the following issues: that national development should be imbued with greater social justice and welfare aspirations, prices should be patterned according to the buying capacity of the people, corruption should

be wiped out, and political functions and organizations should be structured according to the 1945 Constitution.

However, the dialogue did not appear to satisfy the students. Criticism of government policy and its attitude to foreign investment were growing more radical and intensive, with Japanese investment and the ASPRI becoming the main tactical targets of the student protests.

On January 14, after a meeting with the President, General Panggabean decided that the student-protests had already emerged as rebellious actions. He stressed that the President had given full authority to the Armed Forces to take all necessary action to maintain security and order.

Meanwhile on January 3, President Soeharto had called General Soemitro, Lieutenant General Sutopo Yuwono, Major General Soedjono Hoemardani and Major General Ali Moertopo, to a meeting with him. After the talks, General Soemitro refuted the growing claims over his ambition to create a new social leadership. e further refuted the widely rumoured tensions and conflicts existing between some generals close to the President.

On January 14, Admiral Soedomo in a press-conference made an appeal to the students and to all social forces not to encourage demonstrations or other social movements, however, the arrival of the Japanese Prime Minister, Mr. Tanaka, seemed to be a D-day for radical action. Marking the beginning of radical social action.

By January 15, the situation in Jakarta has become increasingly critical. The students planned demonstrations and attempted to reach the palace where a meeting was being held between President Soeharto and Mr. Tanaka, however, this attempt failed, due to a heavy army guard. The students then marched towards Trisakti University, where they held a mass rally. Meanwhile violence and burnings began to take place in various parts of Jakarta with buildings and cars being burned by the mob. While the action was mainly directed at the PT Astra International Inc. offices and at Toyota cars, some blindly destructive actions seemed to take place also. One of the central marketing places was also burned causing great losses to the population. Mr. Adam Malik and General Panggabean, attempted to meet the mob as also did General Soemitro. The situation became increasingly critical with main roads

in Jakarta soon being mastered by the army. In the afternoon of January 15 a curfew was announced by General Mantik while the armed forces were sent to ensure order and security. An order to shoot the mob on the spot had been issued, if this was felt necessary to prevent anarchic actions of violence, burnings and burglary. In the meantime the Moslem Student Union (HMI) had declared its condemnation on the actions while the Golkar also issued a statement, pledging its support for President Soeharto.

By January 16, order still had not been fully restored. Tension still dominated public life while sporadic demonstrations and burnings continued to take place. Schools and Universities were closed and the economic life of Jakarta was totally handicapped. Several arrests began to be executed and some newspapers were banned.

On January 17, a limited cabinet meeting was held by the President. Mr. Mashuri, the Minister of Information, gave the following statement after the meeting:

1. The Government deeply regrets the situation, known as January 15 Affair (Peristiwa 15 Januari), which tended to violence and burnings, as degrading to the image of Indonesia and arousing scepticism toward the existing national leadership.
2. The Government will take resolute steps to safeguard democratic life from attempts to manipulate democratic principles.
3. Mutual understanding among the Government, the House of Representatives and the existing social forces, is to be promoted.
4. Those who are involved and especially the planners and instigators of the mounting radicalism, violence, burnings and burglary, will be arrested and legally prosecuted.
5. The Government is to restore the economic stability, especially in Jakarta.

Several newspapers and weeklies, considered to be involved in the mounting protest and radical activities and arousing social disintegration and unrest, were delicenced, i.e. *Nusantara*, *Indonesia Raya*, *Harian Kami*, *Abadi*, *The Jakarta Times*, *Pemuda Indonesia*, *Wenang*, *Pedoman*, *Express* and *Mingguan Mahasiswa Indonesia*.

It has been estimated that 13 were killed, 128 injured, around 870 cars and 187 motorcycles (the large majority being Japanese) were burned, and various buildings damaged.

On January 19, Admiral Soedomo, together with Mr. Ali Sadikin, the Governor of Jakarta, briefed all school-principals in Jakarta. Admiral Soedomo explained the background situation of the January 15 Affair. Schools were to be opened by January 21, with the exception of several schools in Jakarta. All universities were to remain closed.

In the meantime the Defence Ministry issued formal information stating that a number of people had been arrested, however, he added that people are not expected to be disturbed, as those who are proved innocent will soon be freed. In the meantime Major General Ali Moertopo explained that as a result of interrogations, it had been found that the situation appeared to have been planned by the ex-PSI (Indonesian Socialist Party) and the ex-Masyumi members.

On January 17, the government officially announced that Prof. Oemar Senoadji had been nominated Chief of the Supreme Court while Prof. Dr. Mochtar Kusumaatmadja was to become the Minister of Justice, and Prof. Dr. Syarif Thayeb Minister of Education and Culture.

On January 21, the Defence and Security Minister, General Panggabean, addressed the plenary session of the House of Representatives. General Panggabean gave a chronological exposition of the January 15 Affair. The following were some of his main proposals:

1. The President of the Republic of Indonesia is elected and nominated by the People's Consultative Assembly (MPR). In a case where the President has violated the broad lines of the state policy, the House of Representatives has the right to convoke a MPR's general assembly.
2. It is up to the President to nominate Ministers and Assistants.
3. Rebellious actions are prohibited and will be crushed by the Armed Forces.

A consensus has been affirmed between the government and the House of Representatives, in which the Defence Minister's basic

proposals were fully accepted. In the meantime the House also issued comments and evaluations on the January 15 Affair from all factions. The House also began discussing the proposed state budget and the draft of the REPELITA II.

On the occasion of the inauguration of the new Ministers and the Chief of the Supreme Court, on January 22, President Soeharto emphasized that the 15 January Affair found its origin in the irresponsible practice of democracy. He stated that democracy had been so manipulated that its results were mere burnings and violence, causing damages to the population. The government has the responsibility to take determined actions to safeguard democratic principles. The resolute actions of the government should not therefore be interpreted as the beginning of a decline of democracy.

Immediately after the inaugurations, the Minister of Education and Culture was confronted by the duty to restore University life. A meeting of University rectors in Indonesia was held in Jakarta, to define academic freedom, especially its implementation in Indonesia. They were informed that the government had no intention of abolishing academic freedom, however, such freedom should be exercised with great responsibility, and always be distinguished from mere issues.

The student protests seemingly subsided, however, the situation was still characterised by uncertainty and unrest. To assist in dispelling this doubt, President Soeharto, on January 28, held a meeting with the Golkar's leaders and the leaders of the two political parties. The President expected these three social forces to give their response and evaluation on the proposed PELITA II.

On the same day an official announcement declared that to meet the demand of security and order, President Soeharto will take over the Command of the KOPKAMTIB with Admiral Soedomo as Chief of Staff while General Soemitro will retain his post as Deputy Commander of the Armed Forces. The institution of the ASPRI was dissolved. Major General Ali Moertopo retained his post at the BAKIN, while Major General Soedjono Humardani remained and always was a member of the House of Representatives and the MPR.

On January 22, the Council for Economic Stability held its meeting, and issued three main decrees: on the pattern of *hidup sederhana*, on efforts to promote indigenous entrepreneurs, and on prohibiting the import of built-up cars.

FEBRUARY

On February 4, 1974, a Council for Political Stability and Security was installed by President Soeharto with the function of managing matters related to politics and security. There has then been two councils installed: one for economic stability and the other for political stability and security.

A meeting of all provincial governors was held in Jakarta. Addressing the conference, on February 6, President Soeharto expounded the following guidelines:

1. **On the importance of the conference:** "This conference has its special importance, particularly as the REPELITA II is going to be implemented by April 1974. This meeting is therefore the last preparation for the coming PELITA II". The President further explained the significance and objectives of national development stating that national development is to be understood as a continuous effort.

2. **On evaluating REPELITA I:** The President further explained, that he had already offered and had accepted his account of the REPELITA I in the People's Consultative Assembly (MPR) as defined in the MPR's decree no. III/1973. It had therefore to be understood that notwithstanding all shortcomings, the MPR had already given constitutional ratification to his account of the PELITA I.

3. **On the objectives of the REPELITA II:** The President explained that there are five main objectives of the REPELITA II. Those five main objectives are to be considered as national goals. These, however, are to be adapted to regional conditions and development. There are special sectors which ought to be given more attention in the PELITA II, such as employment opportunities, redistribution of income, developing transmigration, socialization of welfare etc.

4. **Five characteristics of REPELITA II:** There are five characteristics of the coming PELITA II, said the President. These are:

1. That the REPELITA II is the continuation of the REPELITA I. That is the reason why in the REPELITA II the economic sector is still given the first priority.

2. As a continuation of the REPELITA I, the coming REPELITA II should develop several improvements on the elapsed PELITA I. In particular this means achieving more balanced and harmonious development, such as between economic and social problems. National development is to be patterned with popular characteristic, i.e. it must be orientated to the population.

3. The third characteristic of the PELITA II, is that it ought to create a harmonious balance between the dimensions of progress and justice. The PELITA II is to be directed to greater socialization, while at the same time it is not to be understood as creating an inimical climate for the growing entrepreneurship. Naturally we must also be aware that capitalism is to be avoided, however, to achieve social development a great number of people are needed who are capable of managing capital. Socialization is not to be understood as choosing a miserable way of life as the main way of life. Socialization means rationality and social solidarity. This will imply problems of communication between the "haves and the have not", on indigenous and non-indigenous groups, investment problems etc. This is the reason why in the REPELITA II a large allocation has been made to achieve regional development.

4. The fourth characteristic of the PELITA II is its greater attention to the management of natural resources and environment.

5. The fifth characteristic of the PELITA II will be the promotion of a strong governmental apparatus.

The President further mentioned the problems of leadership stating that the state administrative system would prove a major infrastructural component for development and therefore government officials must develop the capacity to promote social participation.

The President also touched upon the January 15 Affair stating that it was a real setback for the New Order.

The President reminded the provincial governors of the essentialia of the New Order, which is basically directed at the authentic implementation of Pancasila and the 1945 Constitution. This implies an avoidance of all the ways and approaches which are not in keeping with the spirit and operative principles as defined by the 1945 Constitution. Extremism and radicalism are not found in the vocabulary of the 1945 Constitution.

National development basically implies reform and change, however, we must promote planned social changes as radical and anarchic social changes will only cause damage to the population. The 15 January Affair has been a concrete example of such action, indeed behind that affair, were those who hoped to achieve their goals by force operating through radical, anarchic, destructive means, indeed manipulating the very principles of democracy.

"As a mandatary of the MPR", said the President, "I have the responsibility to restore order and security, to get national development materialized, to get the constitutional life implemented. The 15 January Affair has been an absolute setback for us. But we should not be terrified".

The President further explained the dual communication system which he has promoted. It was pointed out by the President that the 1945 Constitution provided us with institutions for communication. Finally the President gave five recommendations to meet the situation in these days and here after, namely: to get all social forces unified; to prepare and be aware of efforts and attempts from those who aim at creating national desintegration, breaking political stability into pieces, retarding the process of national development, altering the Pancasila and the 1945 Constitution; to seriously persevere in working for social progress and development; to get wider and more active social participation; to promote mutual understanding and cooperation amongst government officials: between central and the local government and between military and non-military officials.

Foreign Relations

In the midst of anti-Japanese-investment action and of violence and burnings, Mr. Tanaka spent a three-day visit in Indonesia.

Official talks were held between President Soeharto and Mr. Tanaka, the two readers of state announcing a common statement on the promotion of stronger friendship and cooperation between the two countries based on the principle that Japan will not violate the freedom of the Southeast Asian States, and that she will help those states to promote national development without attempting to retard progress towards economic autonomy. President Soeharto expressed his deepest appreciation for Japanese aid to Indonesia during the period of PELITA I. The President further suggested that foreign investment ought to be labour-extensive in character, and that attempts be made to promote the managerial skill of the Indonesian people. In the meantime the President also explained the Nusantara-principle.

On January 16, at a press-conference in Bina Graha, Mr. Tanaka explained that the volume of Japanese-Indonesian trade amounted to two billion US dollars for the period of 1973, while the total volume of Japanese foreign trade in that period amounted at approximately, 90 billion US dollars. Mr. Tanaka explained his resolute intention to promote friendship and cooperation between the two countries. A new policy on investment seemed to have to be defined by Japan.

From January 23 through 27, the Dutch Foreign Minister, Mr. Max van der Stoel paid an official visit to Indonesia.

On 11 and 12 January a meeting of the ASEAN Secretary Generals was held in Bangkok to evaluate recommendations proposed by the meeting of the Special Committee in Bandung.

FIRST JAPANESE - INDONESIAN CONFERENCE

December 6 — 10, 1973

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